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8 October 2015

SA PRODUCTS THAT ROCK THE WORLD

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- SABMILLER
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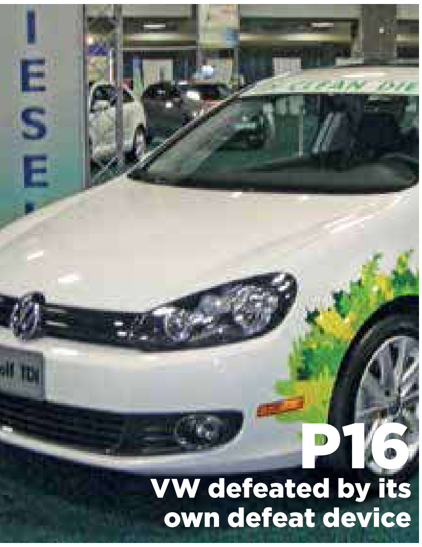

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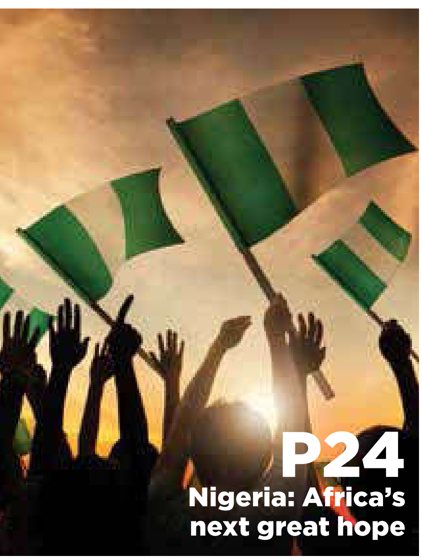

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Cover story: Jaco Visser
Cover layout: Tshebetso Ditabo
Cover story layout: Zandri van Zyl

EDITORIAL EDITOR JANA MARAIS **DEPUTY EDITOR** ANNELI GROENEWALD **MANAGING EDITOR** RUWAYDAH HARRIS **JOURNALISTS AND CONTRIBUTORS** SIMON BROWN, LUCAS DE LANGE, MOXIMA GAMA, DAVID GLANCE, CRAIG GRADIDGE, GUGU LOURIE, SCHALK LOUW, DAVID MCKAY, BUHLE NDWENI, LAMEEZ OMARJEE, VISHNU PADAYACHEE, LIESL PEYPER, CIARAN RYAN, JACO VISSER, GLENDA WILLIAMS **SUB-EDITORS** STEFANIE MULLER, JANA JACOBS **OFFICE MANAGER** THATO MAROLEN **LAYOUT ARTISTS** BEKU MBOTOLI, TSHEBETSO DITABO, ZANDRI VAN ZYL **PUBLISHER** SANDRA LADAS **GENERAL MANAGER** DEV NAIDOO **ADVERTISING** MONICE KRUGER 011-877-6153 / MONICE.KRUGER@FINWEEK.CO.ZA **CIRCULATION MANAGER** ARMAND KASSELMAN 021-443-9975

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Johannesburg Office:
Ground floor, Media Park,
69 Kingsway Avenue,
Auckland Park, 2092
Postal Address: PO Box 784698,
Sandton, Johannesburg, 2146
Tel: +27 (0)11 713 9601

Head Office: New Media House, 19 Bree Street,
Cape Town, 8001
Postal Address: PO Box 440, Green Point,
Cape Town, 8051
Tel: +27 (0)21 417 1111 Fax: +27 (0)21 417 1112
Email: newmedia@newmediapub.co.za

Executive Directors
Group Commercial Director: John Psillos
Managing Director: Bridget McCarney
Non Executive Director: Irna van Zyl

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Website: www.finweek.com
Overseas Subscribers: +27 21 405 1905/7

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Contact *Finweek*, 69 Kingsway Avenue, Auckland Park, Johannesburg 2092, tel (011) 713-9601 or editorial@finweek.co.za

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A BIT OF CHEERY NEWS

FINWEEK EDITOR
JANA MARAIS WRITES:

After four years of declines, South Africa is back in the top 50 most competitive countries in the world, according to the World Economic Forum's (WEF's) latest rankings – a bit of good news at a time when nearly all economic indicators are heading the wrong way.

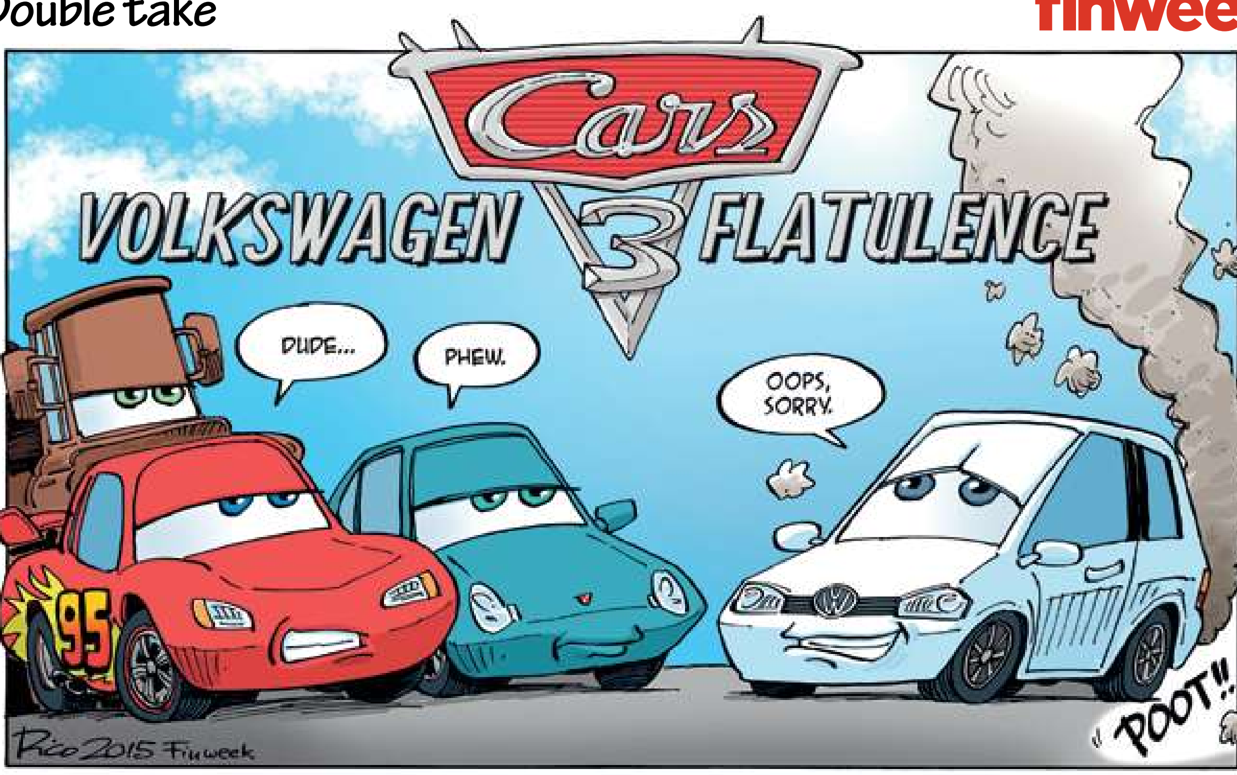
The report always makes for interesting reading, if only to see how far we're behind Singapore, Switzerland, Scandinavia and, in our own peer group, the likes of Chile and Malaysia. The jump of seven places in this year's survey, which included 140 countries, is largely thanks to the increase in internet bandwidth uptake and improvements in our innovation ranking.

The latter surprised me, particularly when you consider the quality of our maths and science education, where we ended stone last in the world. Admittedly I was even more surprised to see that Ivory Coast, who managed to keep the Ebola outbreak, which killed thousands in its neighbouring countries Guinea and Liberia, at bay, was ranked 17th. Overall, the quality of SA's education system was ranked 138th.

There are many other areas where we need to improve, as these rankings tell us every year: cut corruption and red tape, improve safety and security, fix the country's public health and education systems, and address the inflexibility of the labour market. We rank near the bottom on key metrics such as our hiring and firing practices and the flexibility of wage determination. When it comes to employer-employee relations, we rank last.

As Jaco Visser shows in this week's cover story on page 10, South Africans continue to overcome these challenges to succeed internationally. Now that's certainly worth raising a glass of Pinotage to – and invite your boss too! ■

Double take



In Brief

STOLEN MASTERPIECES

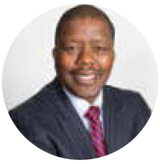
$30M

The value (R415m) of two Picassos that were returned to his stepdaughter Catherine Hutin-Blay, who says the works were stolen. Russian billionaire Dmitry Rybolovlev, who returned the paintings, both portraits of Hutin-Blay's mother Jacqueline Roque, Picasso's second wife, said he bought the works in good faith in 2013 and was unaware that there was a dispute around their ownership.

LOSING MONEY IN NIGERIA

R965M

The amount Tiger Brands has written down on its investment in Nigerian flour, pasta and rice vendor Dangote Flour Mills, according to *Business Day.* Tiger Brands bought nearly two-thirds of the group for R1.6bn in 2012. The group said on 25 September that Peter Matlare will step down as CEO in December, sparking a rally in the share price.



CAPITEC BOOMS

25%

The increase in headline earnings to R1.47bn for the six months to end August by Capitec Bank, SA's fifth-largest retail bank. Capitec said it saw the highest growth in active clients in three years over the period, with more higher-income credit clients joining the bank. "The growing acceptance of our offer as the best value in the market has helped us attract young people of all ages in both high and low income categories," said CEO Gerrie Fourie.

GATES FOUNDATION TRUST SUES PETROBRAS

$41BN

The trust that manages the $41bn (R566bn) endowment of the Bill and Melinda Gates Foundation is suing Brazil's Petrobras and its auditor in a New York court, claiming a vast corruption scheme centred on the state-run oil company caused the charitable organisation to lose tens of millions of dollars, Wealth-X reported. The Foundation's Trust joins a long list of plaintiffs seeking to recoup money they lost as the corruption scandal hammered the value of their investments in Petrobras shares, it said.

BLEEDING JOBS

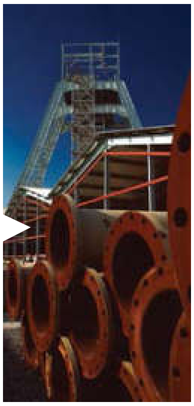
161 000

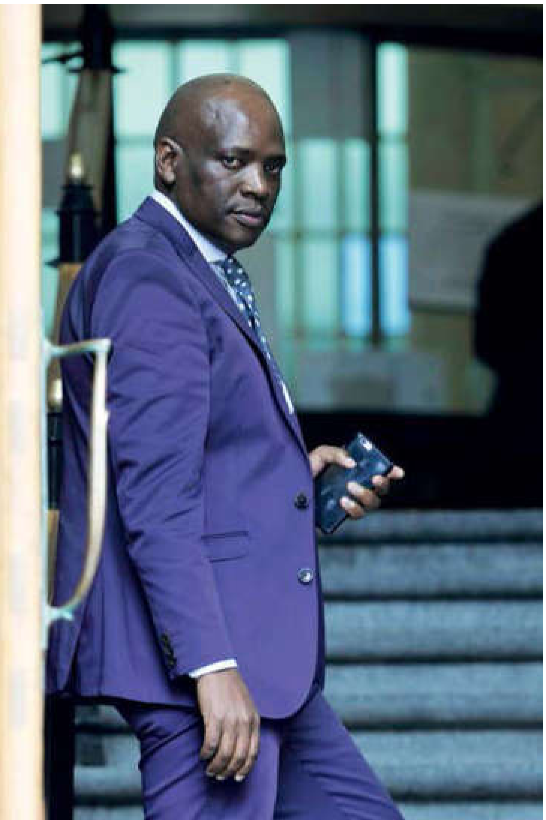
The number of jobs shed in the formal sector between the second quarters of 2015 and last year, according to the latest quarterly employment statistics from Statistics SA. Stanlib economist Kevin Lings warns that the numbers should be read with caution, as there was increased hiring in the second quarter of 2014 by government in the run-up to the elections. Overall, formal employment was recorded at 8.9m by mid-2015.

GLENCORE PLUMMETS

29%

The drop in Glencore's share price on 28 September on the London Stock Exchange, following a research note by Investec showing Glencore's equity could be wiped out if weak commodity prices persist, the *Financial Times* reported. Glencore, which announced aggressive debt restructuring plans and raised $2.5bn in equity in September to strengthen its balance sheet, has struggled to restore investor confidence as the outlook for commodity prices remains weak. (Also see page 14.)





Gallo Images/Foto24/Denvor de Wee

SABC'S LOSSES

R395M

The SABC reported a R395m loss in the year ended March, down from a profit of R358m in 2014, blaming the poor performance on the country's shoddy economic performance and television licence defaulters, *Business Day* reported. It increased expenditure on royalties to artists and sports and film rights. The SABC's chief operating officer Hlaudi Motsoeneng received a pay increase of nearly R1m in the year, bringing his total earnings to R3.8m.

THE **GOOD**

SA has finally halted its slide down the World Economic Forum's (WEF's) competitiveness rankings, jumping seven places in the newly released 2015/16 report to 49, out of 140 countries. The improvement is mainly thanks to an increased uptake of ICTs, especially higher internet bandwidth, it said. However, much remains to be fixed, with the WEF highlighting the need to reduce corruption and the burden of government regulation, and improving the security situation.

THE **BAD**

Global stock markets are poised for their worst quarterly showing since 2011, shedding more than $10tr in value, the *Financial Times* reported. The FTSE Emerging Index has tumbled more than 21% this quarter, its worst showing since 2011, and the fifth-worst quarter this millennium, it said. The poor performance is driven partly by concerns over China's economic slowdown and uncertainty over when the US Fed will start raising interest rates.

THE **UGLY**

Japan's Hitachi agreed to pay a $19m (R266m) fine under the US Foreign Corrupt Practices Act to settle a case related to Hitachi Power Africa, in which the ANC's investment company Chancellor House owned 25%. Hitachi Power Africa, which subsequently won tenders to install boilers at Medupi and Kusile, paid Chancellor House $5m in dividends from project profits as well as a $1m "success fee", reported as consulting costs. Hitachi didn't admit any guilt, and further investigations into the matter are highly unlikely. So much for rooting out corruption.

"With VW, many are suggesting a cost of $18bn and the company has set aside $7.3bn, but the final figure could end up being multiples of these amounts. With this much uncertainty, I stay away. Risk I am happy with (assuming the level of risk is acceptable), but uncertainty I avoid as we cannot price it in a meaningful way." – *Finweek* contributor Simon Brown on whether the drop in Volkswagen's share price presents a good buying opportunity. (Also see pages 16 and 26.)

LETTER FROM NIGERIA. LETTER FROM NIGERIA.

Stark contrast: **Ethiopia upstages Nigeria**

Sometimes you need to leave Nigeria to see it clearly and to gauge its progress. I am writing from the backseat of a car on a main road in northern Ethiopia, making this a letter about Nigeria but not from Nigeria. The road we're on alone tells the tale of two countries: where in Nigeria we'd likely be bouncing from pothole to pothole, fearfully awaiting the next police 'checkpoint', Ethiopia offers a smooth and unobstructed road ahead, save the occasional calf or donkey.

Since arriving here from Abuja a week ago, I have been consistently pleasantly surprised at the apparent health of the country's development and its infrastructure advances; after all, many of us still carry with us a sole, unhelpful image of Ethiopia, that of children starving to death during the famine of the 1980s.

In capital Addis Ababa, a brand new metro system has recently opened, thanks largely – as with many major infrastructure projects in Ethiopia – to a Chinese loan. In our hotel lobby there's a row of functioning cash machines. Even tiny corner shops in small towns take credit cards for a basket of groceries. At the airport the visa on arrival process for tourists was straightforward and relatively inexpensive at $50 (R690).

Maybe it's hard to imagine if you're reading this in South Africa, but when you're coming in from Nigeria, you may as well be landing on Mars when you land in Ethiopia. On the one hand you are grateful for the amenities at hand and the convenience of the place, but on the other it throws Nigeria into grim relief.

Lagos, a city six times the size of Addis Ababa, Ethiopia's capital, remains reliant on buses to get its workforce to and fro. If you need to get cash out in Abuja, your first job is to find an ATM that hasn't been beaten in, isn't broken or hasn't run out of cash. If you can't get cash then you'd want to use a card in a shop or restaurant, but so few places in Abuja accept them and if they do, then the machines are more often without signal than with.

At the airport arriving visitors and business people don't have the option of visa on arrival and will have spent weeks and hundreds of dollars on securing the right papers, if they managed to get a visa at all, given Nigeria's tortuous and often unsuccessful application process.

With apologies for reiterating something you all know, but something that's pertinent here: Nigeria is Africa's largest economy and its biggest crude oil exporter. Ethiopia is its ninth largest; its major exports are coffee and rapeseed.

Ethiopia isn't perfect and faces substantial struggles of its own; it would be naïve to suggest on the basis of a few ATMs that it's some kind of Elysium, especially given the number of children I can see working in the fields as we speed by. But being here and seeing its successes gives an idea of just how far Nigeria has to go to get itself onto a road even half as smooth as the one I am on now. ■

editorial@finweek.co.za

Gallo Images/Getty Images/Anadolu Agency

Africa's first light rail system officially opened on 20 September in Addis Ababa, Ethiopia.

BEING HERE AND SEEING ITS SUCCESSES GIVES AN IDEA OF JUST HOW FAR NIGERIA HAS TO GO.

Where to **invest in Africa**

South Africa maintains its ranking as the most attractive country in Africa to invest in, but has dropped from 33 to 41 in 2015 in the global rankings, according to RMB's latest attractiveness index.

The index, which covers 183 jurisdictions, scores the attractiveness of countries based on two main variables: economic activity (based mainly on GDP at purchasing power parity to reflect market size, as well as forecast economic growth rates) and the operating environment (reflecting the ease of doing business).

SA "continues to hold its own as the most attractive investment destination in Africa despite a continued reduction of its score due to a slightly weaker business environment and a faltering growth outlook", the report stated.

Egypt was the second-most attractive country on the continent, up four places from 2014, followed by Morocco in third, Ghana in fourth and Nigeria in fifth position. The descent of Nigeria, which ranked second last year, reflects a more subdued economic outlook, RMB said. "We are encouraged by the peaceful transition of power and continue to believe in the country's long-term economic viability based on the sheer size of its economy and the prospect of a demographic dividend," it said.

Measured on a global scale, Africa is still at the lower end of the spectrum despite positive developments in its investment climate in recent years. SA was the only African country in the global top 40 last year, but dropped to number 41 in 2015.

RMB'S 2015/16 20 **MOST** AND **LEAST ATTRACTIVE INVESTMENT DESTINATIONS** IN THE WORLD

SOURCE: RMB's *Where to invest in Africa* report

PORTION OF GLOBAL FDI

4.4%

Africa accounted for 4.4% of global foreign direct investment (FDI) in 2014. The inflows have almost doubled in the space of nine years, keeping pace with the surge in remittances and surpassing the growth in development aid, RMB said. Regional inflows ranged between \$10bn and \$15bn in 2014, reflecting a "seismic shift in investor perception" since 2006 (when inflows largely ranged between \$0bn and \$5bn), according to RMB.

EAST AFRICA SHINES

3

The number of East African countries in the top 10 of RMB's investment attractiveness index, with Tanzania and Kenya joining Ethiopia in the top rankings this year. Rwanda, ranked 10th last year, fell out of the top 10. Ethiopia, which ranked sixth this year, enjoys a stable economic environment, strong investment guarantees, a natural resource base and programmes to develop skilled labour, RMB said. (Also see article on page 8.)

AFRICA RISING

25

The number of countries on the continent that have bettered their standings over the last year – while five are unchanged and 23 have fallen, according to RMB. Notable advancements in the rankings include Benin (up eight spots to 28), Lesotho (up seven spots to 32) and Mali (up seven spots to 26). Tunisia continued its slide down the rankings, falling another two spots in 2015 to seventh position, reflecting the government's struggle to revive its ailing tourism industry and safeguard its national borders against terrorist attacks, it said.

SA PRODUCTS THAT ROCK THE GLOBE


Gallo Images/iStock

BY JACO VISSER

South Africa is known for sunshine, vuvuzelas, safaris and Madiba. A small country, in global terms, at the tip of the vast African continent that lures millions of tourists every year. That is not all that the nation known for the first heart transplant and turning coal into fuel is regarded for. Over the years SA has punched above its weight in terms of innovation and new ideas. Products unique to the country are also taking the world by storm. SA is grappling with an economic contraction, indebted consumers and lacklustre job creation. It is easy to stare into these monsters of negativity and forget what innovation and luxury SA has brought to the world.

Finweek takes a look at a number of these concepts and products that are standing SA in good stead overseas.

"THE AFRICAN PROVENANCE AND RELATIONSHIP WITH ELEPHANTS STRIKE AN IMMENSELY POSITIVE CHORD WITH CONSUMERS LOCALLY AND ABROAD."

AMARULA

FROM THE LIMPOPO VELD TO THE REST OF THE WORLD

Amarula celebrated its 25th year of existence last year. The iconic local liquor, made from the fallen fruit of the marula tree, is counted as one of the world's top liquor brands.

"The brand is sold in 103 countries worldwide," says Tessa de Kock, a spokesperson for Distell, which owns the brand. "It is the number two cream liqueur in the world and, in defiance of the decline in sales of the category, Amarula continues to grow support. This is the case, not only in newer markets but in some of its very well-established export destinations such as Germany and also Brazil, where it is the brand leader."

Distell ascribes the affinity for Amarula liqueur to its unique African roots and part of it to its not-for-profit Amarula Trust that boosts research on elephants. Epic advertisements featuring the massive mammals are also enshrined in many locals' minds.

"The African provenance and relationship with elephants strike an immensely positive chord with consumers locally and abroad," De Kock says.

The brand is featured on the list of Impact Databank Top 100 Premium Spirits, as one of the leading global spirits trademarks, according to De Kock. Amarula is also the 32nd most popular spirit brand in the global travel retail market, according to market researchers, IWSR, she says.

The marula fruit is harvested by locals around Phalaborwa in Limpopo and pulped at a plant in the town before it is transported to Stellenbosch where it is distilled. The distilled product is aged for two years in oak barrels before it is bottled, according to Distell.

www.spice4life.co.za

Mark Forrester
Co-founder of WooThemes

WOOTHEMES

DRIVING THE GLOBE'S ONLINE SALES

Grabbing a gap in the online retail market, WooThemes is now used by 29% of all online shops.

The company provides an e-commerce plugin for WordPress-designed websites. About 98% of its revenue is generated outside of South Africa.

"We provided an e-commerce solution for WordPress that was hugely in demand, and historically under-catered for," says Mark Forrester, co-founder of WooThemes. "With WordPress powering around 25% of the internet, it's a massive global audience of potential customers."

Selling digital products allows for "hockey-stick growth" if you tap into the right market and it ensures very low cost of sales, he says.

WooThemes was established in July 2008 and it had an international customer base from the first day, Forrester says, adding that the reason for this is the company servicing the WordPress community.

The company's largest geographic contribution to sales is the US, followed by the UK, Australia and Canada, according to Forrester. WooThemes boasts more than 1m WooCommerce stores around the globe.

A worker from Maastricht farm, on the Durbanville hills, outside Cape Town

Gallo Images/Getty Images/ Gianluigi Guercia

PINOTAGE
SA'S OWN WINE CULTIVAR

The first Pinotage wine was bottled in the early 1940s. The cultivar was created when Abraham Izak Perold crossed Pinot Noir with Cinzaut in 1925.

"The first [designated] Pinotage was sold by Lanzerac in 1959," says Beyers Truter, owner of Beyerskloof wine farm outside Stellenbosch and chairman of the Pinotage Association of SA. Since the early 1980s especially, the cultivar was largely consumed by South Africans, explains Truter, who is also known as the guardian of the cultivar. The first Pinotage vines were planted overseas in New Zealand in the 1970s, he says.

Today Pinotage vines are planted in California, Canada, Israel, Australia, New Zealand and Virginia in the US, to name a few. About 50 Pinotages are bottled outside of SA every year, Truter says.

After 1994, when anti-apartheid sanctions against the country were lifted, Pinotage wine exports took off, according to him. About 7% of SA's 100 000ha of wine grapes are planted with Pinotage. Exports jumped to 9.6m litres in 2008 from 5m litres in 2002, he says.

According to Truter, one of the reasons Pinotage is such a sought-after cultivar is its exemplary ageing characteristic. "If I open a bottle of 1961 or 1962 or 1963 Pinotage, it will be an experience," he says.

Other characteristics include the versatility of the cultivar as it can be bottled as a white wine, used in blends and even made into port, he says. It is also known for its classical balance of tannins, according to him.

PAYPAL
GLOBAL PAYMENT SERVICE

South African-born entrepreneur Elon Musk started X.com in the late 1990s. This was one of the world's first online payment systems and created when the internet was still in its infancy. Musk invested $10m of what he earned from the sale of another tech start-up, called Zip2, in 1999 to start X.com. PayPal was formed when X.com and Confinity merged in 2002. eBay acquired the company in the same year for $1.3bn.

Today, PayPal has 169m active users in 203 markets processing payments in 57 different currencies. The company generated $8.3bn in revenue last year, according to its latest annual financial statements. About 4bn transactions worth $235bn were processed by PayPal last year. Of these, 1bn, worth about $46bn, were made via mobile phones. Some 52% of the company's revenue is generated outside of the US.

PAYPAL HAS
169M
ACTIVE USERS IN 203 MARKETS PROCESSING PAYMENTS IN 57 DIFFERENT CURRENCIES.

Elon Musk
Co-founder of PayPal

Gallo Images/Getty Images/ Kevork Djansezian

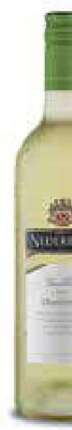
NEDERBURG
BOOSTING SA'S WINE INDUSTRY OVERSEAS

The Nederburg brand of wines, which includes about 75 products, has a long history that runs concurrently with SA's wine-making industry, which is over three centuries old.

Established in 1791 by Philippus Wolvaart, who had planted 20 000 vines by 1796, the farm is now owned by Distell. The farm first began exporting wine in 1921.

"The winery's records show that Nederburg wine was being exported to Burgoynes in England from 1921 when the farm was owned by Maurice Pare," says Tessa de Kock, a spokesperson for Distell. "The next owner, Robert Adolphus Lyall, who held it until 1937, also supplied to [London wine importer] Burgoynes."

After the 1994 democratic elections, wine exports started in earnest. Nederburg sells in close to 80 countries today, with the top six export destinations by volume being Germany, the Netherlands, UK, Canada, Angola and Denmark.



DISCOVERY VITALITY

HEALTHY LIVING EXPORTED TO THE WORLD

Discovery Vitality, which rewards members of Discovery Health and Discovery Life for healthy living, is expanding its concept across the planet.

Started in 1997 as a way to ensure preventative steps are taken by medical aid members to boost their health, the business idea went international in 2008.

"We want to protect our members' lives by making them healthier," says Dr Shrey Viranna, CEO of Discovery Vitality SA. "This was seen as an effective way to help drive engagement [regarding] preventative [measures in the] healthcare space. We see ourselves as a wellness programme and not as a watchdog."

The global roll-out of the Vitality product started with North America five years ago, followed by the UK, he says. That was followed by Southeast Asia two to three years ago.

In these markets, which include China and Hong Kong, Vitality partners with local medical insurers to provide the wellness programme, Viranna says.

In April this year, Vitality partnered with the US' largest life insurer, John Hancock. "It is growing very rapidly," he says about the uptake of the programme. "Any South African company that has the ability to be seen as a benchmark internationally, speaks volumes to the innovation and calibre of South Africans," he adds.

South Africans should be humble about what they have achieved and what they will continue to achieve, Viranna says.

www.mit-schmidt.de

CLICKATELL

GLOBAL DOMINATION OF BULK TEXT MESSAGES

In 2000, just a few months before the dot-com crash that rocked international markets, Clickatell was founded in a bid to sell excess cheap airplane seats in Europe.

Back then the internet was mainly used by individuals to surf travel sites and buy accommodation, make flight bookings and for other travel needs, says Pieter de Villiers, one of the four founders of Clickatell.

"We saw a gap in the market to sell excess seats on low-cost airlines to well-off students," he says. He explains that, on average, Europeans only checked their emails every three days at the time and airline ticket deals would run for 24 hours, thus email marketing would be ineffective.

A surge in mobile phone usage, especially among students, created a gap in the market for the team at Clickatell. The founders "tore up" their business plan and built the world's first text message database, De Villiers says."We started the first global SMS gateway."

Clickatell's first client came from India and the second from neighbouring Nepal, according to De Villiers, who is also the CEO of the company and has been living in California for the past 10 years.

"Our clients came from more than 200 countries within the first year of business," he says.

Clickatell's technology allows for the bulk sending of transactional text messages and the company counts WhatsApp, Facebook, Visa and the world's largest banks as its customers, according to De Villiers.

Today, the company claims to be able to reach 98% of the world's countries and territories, or 224 of the total. Its products are distributed on more than 1 000 mobile phone carriers around the globe.

About two-thirds of Clickatell's profits are generated outside SA and the company has subsidiaries in the UK, US and Nigeria in addition to its local unit, De Villiers says. Clickatell delivers billions of text messages on behalf of its clients every year, he explains.

Concerned about the potential of spamming, or unwanted mass-marketing, the company wrote the first anti-spam policy in SA in August 2000, De Villiers says. ■

editorial@finweek.co.za

Mining debt comes to collect

BY DAVID MCKAY

At the time Ivan Glasenberg's Glencore was linked with a takeover bid for Rio Tinto, in July 2014, the South African mining magnate was worth about R70bn, and riding the proverbial crest.

Last week's selling of Glencore's stock, however, has reduced Glasenberg's wealth to only R16.4bn, representing his 8% share of the R205bn at which Glencore is valued at the time of writing, and very far from the R880bn at which it was once valued.

What this tells us is how quickly investors are changing the mining market, especially in respect of companies carrying excessive debt such as Glencore, which has net debt of $30bn (R415bn) and intends to reduce this to the low $20bns.

Lonmin is another example. As of 31 March, Lonmin had net debt of $282m comprising of cash and cash equivalents of $60m and borrowings of $342m. What's more alarming is that a year earlier, it had net debt of only $29m and a market value of R29bn compared to its R12bn a year later. Most alarming of all: the paltry R2bn the company is worth today.

With most likely negative cash flow at current platinum group metal prices – which makes debt restructuring difficult at best – and a share price that can't support an equity raising, quite how Lonmin survives is a matter for conjecture. It may be heading for bankruptcy, but Glencore is not.

At the very worst, Glencore's owners could take the company private and sort out its debt problems away from the public glare, but Lonmin has no such refuge and debt is killing the company.

AT THE VERY WORST, GLENCORE'S OWNERS COULD TAKE THE COMPANY PRIVATE AND SORT OUT ITS DEBT PROBLEMS AWAY FROM THE PUBLIC GLARE.

At any rate, these two companies typify the dangers of the current market and perhaps more importantly, how swift and efficiently the market works out the inherent risks. By way of contrast, shares in AngloGold Ashanti are up 27% in the last 30 days as it completed the sale of its US operations and put its troublesome Ghana mine Obuasi in joint venture with Randgold Resources, which the latter will manage. It has paid off its high interest bond, due next year, and has no need of further asset sales – a measure of self-help in respect of the balance sheet the market has duly rewarded.

"Mining companies gorged themselves on cheap debt to grow production following the Chinese stimulus that occurred in the wake of the GFC [global financial crisis]. The consequences are only now coming home to roost as mines take a long time to build," said Hunter Hillcoat, an analyst for Investec Securities in London, last week.

"In the current climate, debt is fast becoming the most important consideration for mining company management. 'Never underestimate the ability of debt to undermine the value of equity,' neatly sums up the problem that equity holders face when considering how the highly leveraged companies, such as Glencore, see their much diminished earnings absorbed by the obligations to debt-holders," Hillcoat added in a report that was largely attributed with the liquidation in Glencore shares.

Of course, what's hoped for is the resuscitation of the commodity markets, but Hillcoat thinks metal prices will remain under the cosh for "several years" yet, while Goldman Sachs said it was very difficult to say if equities in the sector had hit the bottom.

"Few investors we spoke to appeared willing to call the bottom in mining equities," it said in a report on September 23, roughly a week before Glencore, Anglo American and a slew of other mining diversifieds were hit by hard selling. "We feel that some clarity that China demand is stabilising is required to put a floor under mining stocks for the time being," Goldman Sachs said in its report. ■

editorial@finweek.co.za

Ramatlhodi's departure leaves a dent

BY DAVID MCKAY

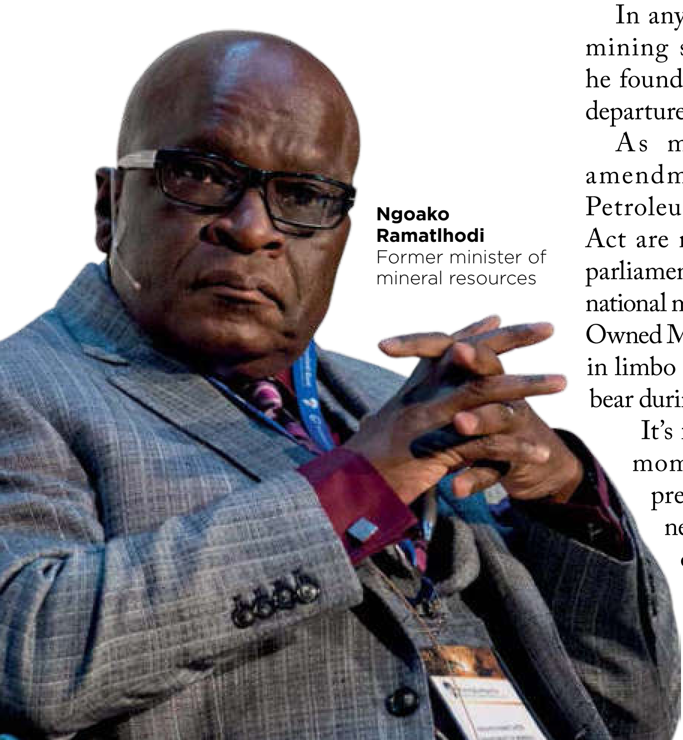
The mines portfolio in South Africa has been reasonably stable since 1994, with no minister serving less than about three years, except those MPs caught in transitional periods.

Pik Botha (1994-1996) served less: two years in Nelson Mandela's cabinet before being replaced by Penuell Maduna and Lindiwe Hendricks, who was in Thabo Mbeki's second cabinet before his recall by the ANC.

That is until former Limpopo province premier, Ngoako Ramatlhodi – who sat in the mining hot seat for a mere 16 months – was replaced last month by the newly inaugurated MP Mosebenzi Zwane.

Much has been made of Zwane's links to the Gupta family, his inexperience and his role in a dairy farming scheme that attracted negative attention, but the reality of politics in SA – especially the mining beat – is that ANC ideology trumps the decisions of government.

Ramatlhodi learnt the perils of discretion, it would seem. Twice he departed from the ANC script by first attempting to have the National Union of Mineworkers and the Association of Mineworkers and Construction Union (Amcu) strike a compromise with platinum company bosses during the five month strike in 2014 – a brow-raising debut until he was slapped down by Gwede Mantashe for seeking to placate Amcu.



Ngoako Ramatlhodi
Former minister of mineral resources

"I think Ramatlhodi was quite an independent-minded minister," said Peter Leon, a partner at Webber Wentzel. "This was particularly noticeable in his treatment of and relationship with Amcu, a stark difference from [Susan] Shabangu (mines minister from 2011-2014)."

The second was agreeing with the Chamber of Mines to jointly seek a legal ruling on an important aspect in the mining charter on whether defunct empowerment deals still scored mining companies points. It is thought the ANC didn't much like the overly reconciliatory tone of the agreement and Ramatlhodi subsequently reneged on agreements with the Chamber, and ruined the sense of entente, that is thought to have been motivated by the ANC.

In any case, Ramatlhodi leaves the mining sector more uncertain than he found it, albeit by dint of his early departure.

As matters currently stand, amendments to the Mineral and Petroleum Resources Development Act are marooned somewhere in the parliamentary process, while plans for a national mining champion, and the State-Owned Mining Company Bill are equally in limbo – all of which were brought to bear during Ramatlhodi's tenure.

It's for Zwane to give them fresh momentum while juggling the pressures of gold and coal wage negotiations, and the overseeing of job retention initiatives even as commodity prices continue to struggle. There's also Project Phakisa – a think-tank backed by President Jacob Zuma – which will weigh up the perennial issues of social delivery, labour practices and the like.

"ALTHOUGH THERE WAS SOME CONFLICT BETWEEN RAMATLHODI AND THE INDUSTRY, YOU GOT THE SENSE THAT BOTH SIDES WERE STARTING TO FIND A WAY TO NAVIGATE THROUGH ISSUES."

"The various initiatives actioned by Ramatlhodi, which are now potentially lying in a heap, are a direct and simple consequence of the priority being focused on political and personal agendas, not an economic growth agenda," said Bruce Falcon, a director at Falcon Hume Inc Attorneys. He doesn't agree that ideology is more important than the minister standing before; therefore, the personality and judgment of Zwane will be crucial over the coming months.

"Obviously, there is some concern about Zwane coming in," said Nicola Jackson, a partner at Fasken Martineau. "He is a relatively unknown factor and the industry will be concerned about where policy could now be headed," she said.

"Ramatlhodi had a sense of what needed to be done to get the industry back on its feet whilst being alive to the challenges to local economic growth," said Jackson. "Although there was some conflict between him and the industry, you got the sense that both sides were starting to find a way to navigate through issues." ■

editorial@finweek.co.za

VW: Defeated by its own defeat device

BY GLENDA WILLIAMS

It's not every day you come across a top global brand shooting itself in the foot. But this is what Volkswagen has done by intentionally fitting its diesel vehicles with a "defeat device" that falsified its emissions tests in the US, possibly even beyond those shores.

After admitting to cheating emissions standards in the US through the use of a defeat device, Volkswagen AG shares lost almost a third of their value and the German carmaker faces hefty reparation costs as well as a colossal fine if the US Environmental Protection Agency (EPA) decides to enforce the maximum fine of \$37 000 (R508 600) per affected vehicle. Although unlikely given previous penalty history, this would bring the total to \$18bn (R47bn) for the 482 000 affected VW diesel vehicles that include the Jetta, Beetle, Audi A3, Golf and Passat, sold in the US since 2008.

Nitrogen oxides (NO_x) emission levels in the VW diesels fitted with the defeat device in the US, are 10 to 40 times higher than US emission standards, the EPA says. Volkswagen AG, however, communicates a vastly bigger problem: "Discrepancies relate to vehicles with Type EA 189 [diesel] engines, involving some 11m vehicles worldwide."

VW says it has set aside €6.5bn (R99.7bn) "to cover the necessary service measures and other efforts to win back the trust of our customers". Would winning back that trust extend to reimbursement for increased fuel costs and taxes as well as the difference in cost paid for a "greener" car? We will have to wait and see. (Also see page 36.)

The tanking of its share price and the departure of Volkswagen AG CEO Martin Winterkorn is likely the beginning of a global fallout that could affect other brands like Audi and Porsche within the VW Group. The domino effect could spill over to the broader vehicle manufacturing industry as other car manufacturers come under the spotlight.

VW is not the only carmaker to have been embroiled in a defeat device scandal in the US. In the late 90s, both Honda and Ford had to cough up \$267m and \$7.8m respectively for fitting devices equipped to defeat the engines' emission control system.

Yet to be unveiled is how South Africa is affected, as VWSA declined to comment. SA however conforms to a lower diesel emissions standard, Euro 2, an industry spokesman tells *Finweek*. "You cannot compare the very strict emissions standards in the US (Euro 6) with those that apply here in SA. The CO_2 emissions dispensation and tax system in SA is based on European test cycle CO_2 data, which is an internationally accepted standard." ■

editorial@finweek.co.za

VW BRAND IMAGE GOES UP IN SMOKE

VW's brand value of \$8bn may not rival that of first-placed Apple's \$145.3bn on *Forbes*'s list of The World's Most Valuable Brands, but in terms of brand revenue it ranks sixth with a whopping \$139.5bn. That brand value and revenue is likely to suffer a substantial knock. Brand expert Andy Rice has this to say:

"A brand is all about stakeholder relationships with the product and I think VW have done themselves no end of harm. While this might not lead to safety risks such as Toyota's sudden acceleration problem, it was clearly a management-endorsed attempt to deceive on an issue that a lot of people [feel] strongly about: environmental pollution.

"The brand has been built around the Volkswagen, 'the people's car', whose relatively uncomplicated middle market audiences just want to believe what they are told and respond accordingly." Other scandals may have been about negligence or incompetence, but this, says Rice, is about deliberate deceit and consumers may not trust what Volkswagen say in future, with an obvious impact on sales.

What should VW be doing right now to rescue its image? "Hiring the best media liaison company in the world would be a good start," says Rice. "How you cope with crisis management is total transparency, making the CEO available to all enquiries in person, adopting an entire *mea culpa* attitude. These are all things they will have to do."

The VW scandal's ripple effect

BY DAVID MCKAY

It's difficult to assess how the Volkswagen AG scandal will affect the platinum price, but for now the view is less hysterical than you might expect in the currently volatile commodity markets.

Roughly 44% of platinum demand comes from its use in curbing harmful gases from automobiles, many of them diesel. A switch to petrol engines is not necessarily bad news, however, because they require more palladium in their manufacture than platinum.

"Each 1% decline in diesel penetration in Europe equates to a 17 000 ounce decline in platinum demand and a 20 000 ounce increase in palladium," says Andrew Bryne, an analyst for Barclays Capital.

"Our base case assumption of a [diesel] penetration decline to 43.9% in 2022 would therefore see auto platinum demand decline by 149 000 ounces. A move to 30% would see a total of 440 000 ounces of demand eroded," he says, adding that there would be a positive impact on palladium demand.

There's also the possibility of auto manufacturers replacing some converters, which may lead to an increase in platinum demand. "I just don't see it being that big a deal over the longer term," Patrick Magilligan, head of market research at platinum recycle company A-1, told Bloomberg News in late September.

There may also be a tightening in the testing conditions for emissions from automobiles – an outcome that Goldman Sachs views as positive for platinum demand as the initial reaction from OEMs [original equipment manufacturers] towards tighter regulations has mainly been to increase the loadings of PGMs [platinum group metals] in order to meet them.

Furthermore, Goldman Sachs notes that if the controversy stays in the US, the negative effect on diesel would not be huge since the US is primarily a petrol (more palladium) market. It believes Anglo American Platinum, Lonmin and Impala Platinum are the SA platinum mining stocks most exposed to the scandal.

"THE VW 'DIESELGATE' SCANDAL JUST **EXACERBATES THE HEADWINDS:** WEAK CHINESE JEWELLERY, SMALLER ENGINES, SLOWING GROWTH IN VEHICLE SALES AND INCREASING SCRAP SUPPLY."

The bad news is that the Volkswagen scandal has probably added a further dose of poor sentiment towards the PGM market and gives succour to speculators who are betting on weaker metal prices.

"The VW 'dieselgate' scandal just exacerbates the headwinds: weak Chinese jewellery, smaller engines, slowing growth in vehicle sales and increasing scrap supply," says Byrne.

World platinum supply is forecast to increase 9% to 7.9m ounces in 2015 according to the latest data from the World Platinum Investment Council (WIPC), which says that the previously estimated annual deficit would also be higher.

Following collection of second-quarter data, the WIPC now believes the previous deficit forecast of 190 000 ounces of platinum would increase to 445 000 ounces by year-end, which it attributes to a sharp increase in second and third quarter investment demand.

However, at 445 000 ounces, the supply shortfall this year is nearly half of the supply shortfall registered in 2014, which was 785 000 ounces. Platinum supply in 2014 was heavily affected by the five-and-a-half month strike in SA's platinum industry.

Volkswagen AG

SOURCE: Google Finance - Yahoo Finance - MSN Money Disclaimer

52-week range:	€102 - €254.99
1-year total return:	-34.53%
Current P/E ratio:	4.8
Market capitalisation:	€48bn
Earnings per share:	€21.64
Dividend yield:	4.6%
Average volume over 30 days:	364 724

SOURCE: Bloomberg.com

VW fitted diesel vehicles with a "defeat device" to falsify emissions tests in the US.

Attacq grows capital value and hard currency portfolio

BY GLENDA WILLIAMS

Attacq Limited, the pioneering capital growth property fund, is somewhat different to other JSE-listed property entities that focus on income distribution to shareholders. Unlike them, Attacq focuses on long-term sustainable capital growth by investing in and developing property.

Attacq has doubled its asset base in the two years since listing from R12.7bn to R23.3bn. It boosted asset value by 26.2% for its full financial year to 30 June, grew its portfolio by 45.1% to over 565 000m² and increased net rental income by 47.6% to R954.1m.

But as a capital growth property fund, performance is measured by growth in net asset value per share (NAVPS). The company posted growth of 20.6% in net asset value for shareholders and growth in adjusted NAVPS of 17.9%, figures that may be quelling previous doubts about the company's ambitious development plans.

Morné Wilken, Attacq's CEO, attributes strong performance to healthy income growth in Attacq's core portfolio, the performance of MAS Real Estate Inc. and the ongoing delivery of its development pipeline, 13 new developments having been completed during the year.

Attacq's investments of 77% and developments of 23% include a diverse portfolio of mostly retail and commercial properties, 58% of these local. Much of this is in Gauteng via Attacq's flagship development, the 323ha mixed-use Waterfall development in Midrand, a key driver of its South African growth. The new CBD of Waterfall, Waterfall City, is to be anchored by the 131 000m² Mall of Africa due to open in April 2016.

And Attacq is growing its offshore representation, currently 19%, in both emerging and developed markets. Attacq's 6% emerging markets exposure include investments in Ghana and Zambia through a 31.25% shareholding in AttAfrica, an investment equivalent to R599.3m. That investment is in dollars, as is its debt, a natural hedge for the company.

Together with Atterbury Europe, Attacq recently tapped into the Eastern European market, acquiring a 48.75% stake in two leading shopping centres in Cyprus's capital, Nicosia. As a euro country this means hard currency, immensely beneficial for Attacq with those assets valued at €195m.

"This is part of a bigger Central and Eastern Europe strategy," says Wilken. "We've seen positive growth with the banks valuing these assets higher than our purchase price. Both centres have additional bulk and we are planning future expansions."

Developed market exposure is 13% with investment in Germany, Switzerland and the UK via a strategic 45.4% shareholding in JSE-listed MAS Real Estate Inc.

"We want our investments to give us stability, [this is] predominantly why we went into the MAS investment," says Wilken.

Morné Wilken
CEO of Attacq

Ongoing diversification, in SA and abroad, plus offshore development opportunities will be two of Attacq's key focus areas, along with investing in local opportunities outside of Waterfall, adds Wilken.

"Local opportunities may come from those who have overstretched themselves and will come under pressure to sell assets," Wilken tells *Finweek*. "We don't have exposure in KwaZulu-Natal and on the North Coast there is space for some commercial, some hotel and maybe some residential.

"When we go into residential, we would rather partner with a residential developer with that expertise. We have a few opportunities in Waterfall City where we will definitely partner with a residential developer," concludes Wilken. ■

editorial@finweek.co.za

ATTACQ AT A GLANCE

Total assets:	R23.3bn
Property portfolio value:	R16.19bn
Investments:	R5.11bn
Total committed facilities:	R11.96bn
Gearing:	36.3%
Cost of debt:	9%
NAVPS adjusted for deferred tax:	R18.98

Modderfontein **New City** a go

BY GLENDA WILLIAMS

Irrespective of recent economic events in China, development of Modderfontein New City is going ahead, with Hong Kong-listed Shanghai Zendai subsidiary Zendai Development SA launching the first phase of its maiden luxury residential project, The Centenary.

When Zendai Development South Africa (ZDSA) first announced the R84bn mega-mixed use Modderfontein New City project east of Johannesburg a year ago, Chinese coffers were overflowing. Since then China's economy has taken somewhat of a battering, leading many to believe this would curtail development of the colossal 1 600ha mixed-use node, a project heavily dependant on Chinese investment.

Not so, say the developers. "Chinese people by their very nature are long-term thinkers. The events of the Chinese economy are short-term events that have little impact on long-term decisions, which this development at Modderfontein is," says Zendai Development South Africa (ZDSA) CEO Anthony Diepenbroek. "This [Modderfontein New City] is a 25- to 40-year project and development will happen progressively over that period."

The development has acquired a new Chinese shareholder, state-owned China Orient Asset Management, which now has a 50% stake in Hong Kong-listed Shanghai Zendai.

General investment faith has cooled significantly. But 70% of the development is focused on residential, where investment appetite is somewhat more upbeat. The Centenary's capital growth potential and investment price of around R19 000 to R20 000/m^2 for an upmarket apartment within walking distance to a Gautrain station, is likely to stir investor ardour for the company's maiden luxury residential project.

Comparative units in Gautrain nodes like those in Rosebank sell for double the price, says Jacques Klynsmith, head of marketing for The Centenary, so it is perhaps not surprising that 20% of the 54 residential units released at launch were pre-sold to South African investors.

Located on 12ha in Modderfontein New Town, the CBD area of Modderfontein New City, The Centenary will ultimately feature 300 luxury apartments to be developed in phases at an estimated total cost of R550m. ZDSA's first phase of 150 apartments comprising one-, two- and three-bedroom apartments, range in price from R1.15m to R2.8m, with construction of the first phase expected to commence during the first quarter of 2016 and completed by early 2017.

Construction contracts will be awarded to local companies, says Diepenbroek. "We have adopted an attitude of local and are strongly supported in this development by our local partners, local consultants and local construction companies."

Anthony Diepenbroek
CEO of Zendai Development South Africa (ZDSA)

In the past 12 months ZDSA has invested over R400m in road, electrical, water and sewerage infrastructure. In an "advanced stage of completion" is a 200-bed hospital.

Design of the proposed Modderfontein Gautrain Station and adjacent buildings has commenced and the company anticipates that construction will start in early 2017, with the station hopefully opening at the end of 2018. ZDSA is working with Gautrain management to this end.

"It's not about the station, it's about getting the train to stop," Diepenbroek tells *Finweek*. "The platforms are already built. Those were built when the line was built at a cost of about R50m." ■

editorial@finweek.co.za

An artist's impression of The Centenary luxury apartment development in Modderfontein New Town, east of Johannesburg.

Piketty's contribution to unpacking inequality: Timely and relevant

BY VISHNU PADAYACHEE

Not many economists with something approaching a rock star status visit South Africa. So the visit by French political economist Thomas Piketty, author of the bestselling *Capital in the Twenty-First Century*, appears to be eagerly awaited by academics — especially those broadly on the left — and by many South Africans.

In 1976, Milton Friedman, then the rising rock star economist of the anti-Keynesian right wing in the US and Europe, made a visit to SA. He was wined and dined by then-President Nico Diederichs and finance minister Owen Horwood. He and his economist wife Rose met with leading South African businessmen, political leaders and the South African Reserve Bank governor, among others.

Friedman's message to SA was both political and economic. He was mightily impressed by what he described as: "The unbelievably sophisticated economy you have developed at the tip of Africa, thousands of miles away from any similar civilisation."

Friedman urged the West to support SA and Rhodesia as bastions against Soviet penetration.

Two nights before the couple left, then-South African Reserve Bank Deputy Governor Gerhard de Kock remarked: "Friedman's visit will have at least a 10-year impact on South Africa's economic thinking."

De Kock was right. What followed were major changes in monetary policy, including those recommended by the De Kock Commission on Monetary Policy.

I am not sure whether Piketty will have a similar impact on economic thinking in SA today. (Piketty will deliver the 13th Nelson Mandela Annual Lecture at the University of Johannesburg's Soweto campus on


Gallo Images/iStock

3 October.) I do predict, though, that ministers and former ministers will be bounding up the stairs to join him on his many platforms around the country. I would not be surprised if they expressed their total support for his analysis and his ideas.

Some, without the slightest sense of irony, may well make a case that they were and are the true champions of the struggle against poverty, inequality and unemployment in democratic SA. This despite the fact that they arrogantly relegated left, social democratic options such as the Freedom Charter and the Reconstruction and Development Programme (RDP) to the dustbin of history.

Instead, in 1996 they opted for the neoliberal Growth, Employment and Redistribution Strategy (GEAR), a macroeconomic policy. So a rewriting of

the recent economic history of SA may well be one outcome of the Piketty visit.

PIKETTY'S DEMOLITION OF WHAT WENT BEFORE

To date, data from the relatively short post-World War II period up until the end of the 20th century has been read mostly in sympathy with a neo-classical interpretation. In this period the hypothesis behind the Kuznets Curve was the dominant thinking about development and income inequality. This argues that inequality first increases in the early stages of development, reaches a maximum at an intermediate level of income, and then declines as the country achieves a high level of per capita income.

Into this picture steps Piketty. With his 300-year-old datasets he demolishes the Kuznets hypothesis. He shows instead that the turn away from inequality over time and in the course of development and global integration is not assured. And, he argues, intervention in the market mechanism is required to arrest and reverse the increasing share of income that capital relentlessly claims over time.

Piketty shows that it was the interventions between 1914 and 1945 that arrested the trend towards greater and greater inequality. These included taxation policies in the 1920s and 1930s, which were less favourable to the owners of capital.

He shows that patrimonial capital is the largest contingent of total capital. Central to understanding capitalists' drive to accumulate is increasing economies of scale. Whereas Karl Marx focused on the increasing economies of scale of industry, Piketty shows how the same benefits of scale apply to investment performance of capital.

Despite some reservations about his analysis and his policy prescriptions, I believe that Piketty does convey an important and timely message. He combines a grasp of western economic history and an analysis of long-run historical data to point to the nature, form and variety that western capitalism has assumed over an extended time. Sharply widening inequalities of income and wealth between rich and poor is the most blatant.

Piketty does indeed have something to say to the beneficiaries of this variety of capitalism who praise and parrot this model and its values. This includes the corporates and the ever-richer elites and to many in aspirant and new middle classes in countries including SA and India.

SO, WHAT ARE PIKETTY'S ANSWERS?

Piketty is right to point to the need for a robust debate about the kind of state – a social state, he calls it – that is required at the beginning of the 21st century to regulate a rampant inegalitarian capitalism. New institutions and instruments are needed to regain control over globalised financial capitalism, and "to achieve a just social order". But when it comes to specifics, Piketty's economic policy prescriptions are not very convincing.

NEW INSTITUTIONS AND INSTRUMENTS ARE NEEDED TO REGAIN CONTROL OVER GLOBALISED FINANCIAL **CAPITALISM**, AND "TO ACHIEVE A JUST SOCIAL ORDER".

In my view, they do not take progressive macroeconomic policy much further. If anything it sets back thinking in this crucial policy arena, both at national and global level. His policy response to the crisis he correctly analyses, as the economic anthropologist Chris Gregory notes, is constructed:

> *...in the narrowest apolitical, mathematical tradition of 20th century mainstream economics.*

An international tax on capital is not likely to be implementable under current national or regional political models. Action is more likely to originate at a national, not international level. In my view this would include a serious relook at old and new forms of control over currency, capital mobility and banking regulation.

Piketty has little to say about all this, apart from noting (on the basis of China's admittedly opaque and unstable system of capital regulation) that:

> *...capital controls are one way of regulating and containing the dynamics of wealth inequality.*

But how would this work in more democratic, transparent and liberal regimes than the China of today?

By way of contrast, and much more practically, Nobel Prize-winning economist Joseph Stiglitz has teamed up with others to push for US national economic policy options aimed at curbing the flow of economic gains to the wealthiest and most powerful. Those he has teamed up with include New York Mayor Bill de Blasio and US Senator Elizabeth Warren.

Their argument is based on the premise that "equality and economic performance are complementary rather than opposing forces". On the agenda are policies such as increased taxes on the wealthy to fund education, affordable housing and job-creating infrastructure, as well as minimum wages and benefits for the poor.

These issues, and a few others, are of relevance to SA today. The others would include an appropriate form and shape of a "social state", tax policy, a national minimum wage, and capital controls to curb the billions of dollars leaving the country legally and illegally. Perhaps Piketty can be persuaded to share his views on these matters. ■

editorial@finweek.co.za

Vishnu Padayachee is distinguished Professor and Derek Schrier and Cecily Cameron Chair in Development Economics, School of Economics and Business Sciences, University of the Witwatersrand.

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THE CONVERSATION

Datacentrix looks to the cloud to boost sales

BY JACO VISSER

As South Africans grapple with the idea of offsite data storage, also called cloud services, Datacentrix is ramping up its offering for a potential big uptake of this new technology. *Finweek* spoke to CEO Ahmed Mahomed about the company's prospects.

Ahmed Mahomed
CEO of Datacentrix

Companies such as Datacentrix, EOH, AdaptIT, Pinnacle Holdings and Gijima have experienced stellar growth since the turn of the century by relying on local and some international customers outsourcing chunks of their information technology functions.

Keeping ahead of the curve and servicing customers with the latest technology isn't easy – something cloud computing (where customers store their data offsite to free up local processing and server capacity) has shown Datacentrix.

Nevertheless, the company is investing in boosting this unit in order to be prepared for the uptake once programme developers, large companies and even smaller businesses come around to the idea that it is cheaper and safer to store data offsite.

"Like any developmental technology, it takes a while for uptake from an enterprise point of view," says Ahmed Mahomed, CEO of Datacentrix. "We think that cloud would be well-suited to the small- and medium-business market."

Cloud service is split between the public cloud and the private cloud, where the latter is offered from a company's premises. The public offering is operated from the host, or in this case Datacentrix's, site.

A large company would look to run its more generic services, such as email and exchanges, from the cloud, Mahomed says. There is also a demand for cloud services from larger enterprises that need space for developing software, he says.

"If you're doing development and you need capacity in terms of server space or processing space, the guys would typically post out to the cloud, do their development and bring it back into their production environment which is generally on site," Mahomed says.

Small and medium businesses generally don't have the appetite for IT or the capital to invest in this function, he says. Small businesses especially make use of the cloud offering to store data, according to him.

Another area of growth for cloud services is software developers in need of server and processing capacity, Mahomed says. These companies, many of which focus on servicing niche markets, don't always have the capital to invest in expensive server capacity and rely on cloud computing to boost their capabilities.

KEEPING AHEAD OF THE CURVE AND SERVICING CUSTOMERS WITH THE LATEST TECHNOLOGY ISN'T EASY – SOMETHING CLOUD COMPUTING HAS SHOWN DATACENTRIX.

"If you look at its life cycle, I don't think there's anyone who has made significant inroads in cloud servicing at the moment," Mahomed says. "There has been uptake, but it has been cautious."

Security concerns and data residency are two of the reasons Mahomed believes the approach to cloud computing has been cautious. With data residency, users would want to know where their data resides. Limited bandwidth, especially outside South Africa's major urban centres, is another issue slowing the uptake of the technology, according to him.

"People generally want to look and touch and feel and control their data," he says. "With the cloud it is not the case and people think it is out of their control."

Datacentrix's human capital unit, called managed talent services, sources employees with scare technical skills, such as project management, in the engineering and technology fields. The company has successfully adapted to the recent legislative changes regarding labour broking, helping to manage the effect on this unit, Mahomed says.

SA's economic woes, with GDP contracting by 1.3% quarter-on-quarter annualised in the three months ending in June, is impacting on technology companies as customers postpone spending on new equipment.

"Generally speaking, any economic downturn will have an impact on local companies' procurement abilities," Mahomed says. "We see pressure in certain sectors' financials coming through. The mining sector, as we all know, is under a huge amount of pressure."

These are, however, short-term issues and when the economy turns, these sectors will come back, according to him.

"Our strategy is to persevere in that area," he says. Mahomed believes that anyone who claims their business is not feeling impacts of the current economic climate is mistaken.

New demand is coming from companies moving into the rest of the continent, Mahomed says. Datacentrix's expansion outside SA's borders is a cautious one where the company follows the needs of its customers, he explains.

"We've done quite a bit of deployments into the rest of Africa," Mahomed says. "It doesn't necessarily mean that we enter a country with bricks and mortar. In some of them we will go where there is a great demand for our services."

The demand for the company's services has led to expansion in Zambia, where Datacentrix has put down a data centre.

The company's security solution offering is having an increased uptake from customers, according to Mahomed. Enterprises are expected to secure their data from a governance point of view, he says. An increase in global security breaches lately is also a factor boosting the demand for this division.

"Security solutions are a grudge purchase for many enterprises," Mahomed says. "Security for us is a long-term play and as data usage grows, it would be key to many of our customers."

Datacentrix bought Infrasol, a company that focuses on the design and development of large network infrastructure, from Pinnacle Holdings for R85m in July. Pinnacle holds about 34% of Datacentrix's shares.

"An acquisitive strategy is limited by the entities available that would fit into your organisation," Mahomed explains. "Typically, what we would do is expand our portfolio of offerings." ■

editorial@finweek.co.za

GETTING TO KNOW **AHMED MAHOMED**

WHICH BOOK HAVE YOU RECENTLY READ?

I read *Inside Coca-Cola* by the company's former CEO Neville Isdell. I'm just fascinated by other CEOs and how other entities are doing.

WHAT IS YOUR FAVOURITE VACATION SPOT?

This is a difficult one. I generally tend to go to the coastal areas and it tends to be the Western Cape because my in-laws are there; it's a lovely part of the country in any case.

WHAT DO YOU DO TO RELAX?

I play a bit of golf, but for me, given the nature of our jobs, I tend to spend a lot of time with my family. Just over a year ago my grandson was born. I think it changes your priorities.

Datacentric Holdings

52-week range:	R3.01 - R5.10
1-year total return:	+22%
Current P/E ratio:	8.9
Market capitalisation:	R964.7m
Earnings per share:	R0.53
Dividend yield:	3.73%
Average volume over 30 days:	1 061

SOURCE: Bloomberg.com

Nigeria: Africa's next great hope

BY CIARAN RYAN

Nigeria has displaced South Africa as the continent's economic powerhouse and in April Muhammadu Buhari was swept into power by an electorate fed up with graft and corruption. Despite its infamous 419 scams and Boko Haram terrorism, scores of South African companies see this as the African growth story of the next decade.

COUNTRY AT A GLANCE 2014

Nigeria

Population	178.5m
GDP	$568.5bn
GDP growth	6.3%
Inflation	8.1%

South Africa

Population	54m
GDP	$349.8bn
GDP growth	1.5%
Inflation	6.4%

SOURCE: World Bank

It's not hard to see why Nigeria is Africa's hottest story – with growth expected to reach 8% a year over the next two decades, this is a market that cannot be ignored.

In April Muhammadu Buhari unseated Goodluck Jonathan as president, the first time Nigeria has voted a sitting president out of office. Buhari's electioneering mantra of clean government and war on waste and corruption comes with high expectations. In June he sacked the high command of the military for its failure to rein in Boko Haram, and set his investigators on key officials in the previous government suspected of corruption.

These are crucial confidence building steps for a country steeped in a culture of graft. Nigeria's economy has grown at about 7% for the past decade, slipping to 6.3% last year. According to a report by Africa Economic Outlook, the non-oil sector has been the main driver of growth, with services contributing about 57%, while manufacturing and agriculture contributed about 9% and 21% each. This diversification has cushioned it against the shock of lower oil prices.

The 2015 outlook is for moderate growth of 5%, due to lower oil prices and a weak global economy, according to the International Monetary Fund. This should be a temporary dip, as growth is expected to return to 7%-8% a year over the coming decade. That, and a middle class of 40m people – many times the size of SA's – is what makes Nigeria so compelling.

Contrast this with SA's flaccid economic growth of 1.5% last year, with worse to come: there is a very real possibility SA will be in recession within the next year. Nigeria's foreign direct investment (FDI) hit a record $7.1bn (R92bn) in 2012 and has overtaken SA as the preferred destination for investment funds in Africa.

While SA's growth prospects have all but evaporated, Nigeria is just getting started, which explains why more than 100 SA companies decided to brave the clogged and chaotic streets of Lagos and Abuja for a piece of the action. It's not just the familiar South African brands such as Shoprite, MultiChoice and MTN that have seen where their futures lie, but construction and engineering companies such as Group Five and Murray & Roberts, as well as SA law and accounting firms.

The change in government has strengthened the case for investment in Nigeria. For one thing, doing business is likely to become easier, according to Dianna Games, CEO of Africa @ Work. "If the president succeeds in tackling corruption – and there is every indication that he will certainly make serious inroads into it over time – that will already be a major win in terms of the business climate. Tackling graft will lower the cost of doing business as it will help to address longstanding dysfunction in state enterprises and help to level the playing field."

In a report published earlier this year, the Institute for Security Studies (ISS) says Nigeria is the African country most likely to play a global role, due in part to its large population of 170m, which is expected to grow to 320m by 2040, and an economy that is expected to top $4.2tr (R54tr) within 25 years. It is also stepping up its investment in security to combat Boko Haram, which will help it play a wider peacekeeping role in Africa.

One of Buhari's first actions as president was to approach the World Bank for a $2.1bn (R27bn) loan to help rebuild parts of the underdeveloped north of the country, where Boko Haram's roots run deep. Though clearly committed to military action, Buhari sees no hope of deracinating Boko Haram without the gentle persuasion of investment and social repair.

Buhari's other priorities are to root out corruption and spread wealth to the country's poor. Between a third and 42% of Nigerians live on less than $1.75 (R22) a day. To solve this, he needs to get investors on board.

One of the great ironies of Nigeria, Africa's largest oil producer, is that it is forced to import 70% of its fuel needs, hence fuel shortages are common. Electricity supply is erratic and a major constraint on growth, which is what prompted the previous government to launch a programme of privatisation. The Power Holding Company of Nigeria was split into regional distribution and generating companies and sold off to private investors, though it will take the best part of a decade and $5bn (R64bn) in investment a year to restore the grid to respectability.

Another brake on growth is Nigeria's spotty infrastructure. Like in SA, ports and roads suffer from decades of neglect. Buhari promises to redress the criminal neglect of infrastructure, and to recover billions of dollars looted by government officials. How he achieves this remains to be seen, but this will not go far in funding the country's daunting infrastructure backlog. For that he needs foreign financing and a convincing investment story.

NIGERIA WILL HAVE AN ECONOMY OF ABOUT **$810BN** BY 2020, MAKING IT THE 20TH-LARGEST ECONOMY IN THE WORLD.

Though nominally committed to privatisation since 1999 when it passed the Privatisation and Commercialisation Act, Nigeria's Bureau for Public Enterprises has admitted that barely 10% of roughly 400 privatised firms are functioning properly. Reasons cited include improper valuations, asset stripping by the acquiring investors, lack of technical know-how and general incompetence. Privatisation was intended to counter the disastrous indigenisation decree of 1973 that effectively passed control of international corporations to the state, resulting in a proliferation of atrophied state monopolies in virtually every sector of the economy.

Gallo Images/iStock

HURT BY OIL PRICE DROP

The drop in oil prices over the past year has hurt Nigeria. Earlier this year the central bank of Nigeria introduced import restrictions to stem the flow of US dollars out of the country. This has created artificial support for the naira, but has created problems of a different kind: importers are unable to access hard currency to pay for goods, and a vibrant black market in US dollars has flowered. While other oil producing countries have seen their currencies slide against the dollar, the official naira/dollar exchange rate remains stubbornly high. It is only a matter of time before this dam bursts and the currency goes the way of the Russian ruble and the Colombian peso.

Gareth Brickman, Africa analyst with ETM Analytics, told *Finweek* he expects a 10% softening in the naira by year-end, but despite the challenges, Nigeria is still a promising market. "I think the biggest issue in Nigeria is the tough operating environment. On top of issues with currency and corruption, infrastructure is very underdeveloped and like SA they are suffering from electricity constraints. I believe several SA companies, notably retailers, have been bitten hard by the costs of trying to operate with these hurdles and pulled out.

"The fact that the economy and government spending is slowing drastically in the wake of the oil price slump is only going to make circumstances even more challenging, but for the long term I think there will still be appeal to invest and get involved because of the sheer scale of the country and the potential for positive reforms from the new Buhari government. That said, the experience of other reformist governments like India and Indonesia give reason to be cautious of getting too optimistic about the impact of these in the near term," says Brickman.

THE CHALLENGES AND OPPORTUNITIES

Commuters in Johannesburg and Cape Town who complain of traffic have yet to spend time in Lagos, perhaps the world's most spontaneous onslaught of urban chaos. Here it can take eight hours to get to a meeting – four hours there and four hours back.

"It's no joke," says Seyi Adeniyi-Omoakin, a Lagos-based business consultant and trainer. "When you have a meeting you have to set aside several hours to get there and back because the traffic is so chaotic. On the plus side, you can take your laptop and plough through your emails, or you can study a book. Everyone has their own way of using the commute time effectively."

With a middle class of 40m people, Nigeria's growing consumer spending is attracting retailers such as Shoprite and Pepkor, both of which have well established footprints across Nigeria. Pepkor has 31 stores and Shoprite 10, having added two more over the past year. Shoprite says it will have 20 Nigerian stores within the coming financial year – a doubling in little over a year – while Pepkor will open 10 new stores a year through 2018.

What is attracting retailers and other businesses are the fat margins and growth opportunities in a country traditionally underserved by large convenience stores. Shoprite last week reported turnover growth of 13.5% from its non-SA stores, despite lower oil prices and softer currencies in Angola and Nigeria. By comparison, turnover from SA stores increased 10.5%.

It hasn't always been a great success for SA retailers. Woolworths closed three Nigerian stores in 2013 because these were not viable. Woolworths targets higher-end customers, while Pepkor and Shoprite are better suited to Nigerian income brackets.

Shoprite has teamed up with Resilient Africa Real Estate, which owns several rural shopping malls in SA, to build shopping centres in Nigeria. It has signed up to build 10 malls in the country valued at about $85bn (R1bn), opening the door for other retailers such as Game and Mr Price to expand into this market.

MTN entered the Nigerian market in 2001 and has since grown its subscriber base in the country to about 63m, making it the largest cellular phone network in the country and traditionally the largest single contributor to MTN's profits. It grew the number of subscribers by about 5% in the half year to June 2015, though profit margins and turnover were hit by the weaker naira.

Despite the half-year setback, MTN remains bullish on Nigerian growth prospects, especially around data services, mobile money and e-commerce. "These are key elements of our long-term growth strategy for the Nigerian market," a spokesperson for MTN told *Finweek*. "The Nigerian market as a whole has been pressured by the broader macro-economic challenges which have seen higher inflation, fuel shortages as well

NAIRA OUT OF STEP WITH OIL PEERS

Central bank intervention makes Nigerian currency vulnerable to devaluation

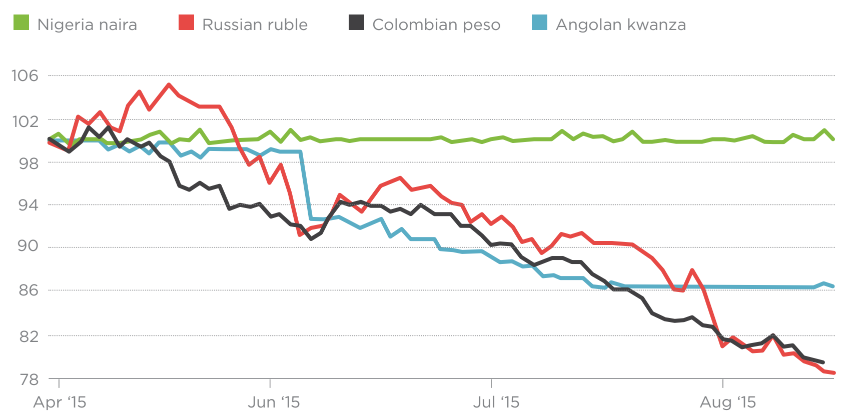


Chart shows inverse prices for currencies to dollar

SOURCE: Bloomberg.com

as some unrest in the north west, which have all been drag on consumer spending. Outside this, the market has the general challenges of any emerging market, which generally impact efficiency."

Of the SA banks, only Stanbic has a retail footprint in Nigeria. It is now one of the 15 largest banks in the country, offering retail through to investment banking services and asset management. In 2014 Nedbank acquired 20% of West African banking group Ecobank, one of the top 10 banks in Nigeria. Barclays Africa has only recently placed Nigeria on its radar, and services clients through its network of corporate and investment bankers outside the country. Retail banking in Nigeria is competitive and costs of entry high, which explains why only Stanbic has been brave enough to put boots on the ground. This may change given the new government's commitment to infrastructure upgrades, which require international financing.

Entering Nigeria is not for the faint-hearted, as Woolworths found to its cost. "Despite many improvements in the commercial sector, it is still expensive and difficult to operate in Nigeria," says Games. "Long delays in the ports, inefficient and inaccessible bureaucracy, lack of reliable power, traffic jams in main urban centres, very high property and office rentals and many other issues contribute to the situation."

In a recent report, the African Futures Project says Nigeria should grow its economy by about 8% a year over the next two decades. It will have an economy of about $810bn by 2020, making it the 20th-largest economy in the world. Still, this will be just 0.8% of the global economy.

"Size is not the issue, although rapid growth is a prerequisite for sustainable development," according to Jakkie Cilliers, executive director of the ISS, which has partnered with Pardee Center for International Futures to set up the Africa Futures Project. "The challenge is how to improve governance, reduce inequality, grow inclusively and alleviate deep-seated poverty among the 60m to 77m Nigerians who, by 2020, will still be living in extreme poverty."

WORLD'S FASTEST-GROWING ECONOMIC ZONE

The report by the Economist Corporate Network, *Africa is the horizon; the 2015 African Business Outlook Survey*, suggests sub-Saharan Africa will grow by about 4.5% over the next five years, beating Asia's growth rate of 4.3%. This means sub-Saharan Africa's share of global GDP will double by the end of the decade.

The survey also highlighted the chief concerns of executives: corruption was high up the list, followed by labour concerns, currency volatility, poor infrastructure and civil and political unrest. But this was offset by the continent's many positives, including strong economic growth and a burgeoning middle class.

OPPORTUNITIES

Given its huge and growing middle class, Nigeria is not a market SA companies can afford to ignore. Some sectors of the economy are less attractive than others. Telecommunications, for example, is already highly competitive. Retail banks are well represented. Retailing at the lower- to middle-income groups is attractive for those with the necessary capital, expertise and patience – it can take five years to turn a profit from a store, according to Pepkor.

The real sizzle lies in the expected growth in consumer spending over the next 20 years. Organised agriculture and agroprocessing are promising sectors for growth. There is also need for oil refineries, given the country's need to import refined fuel from abroad, and derivative chemical products. Pharmaceuticals are another growth area, as are private hospitals and schools catering to the newly enriched middle class. Another growth area is building materials – as a slowing China starts to offshore some of its manufacturing capacity, Nigeria should benefit. It may not have the lowest labour costs in Africa, but it has the most alluring consumer market.

The demand for residential and commercial properties will inevitably attract the attention of SA developers. The Pretoria-based Atterbury Group is already deeply involved in building shopping malls in Ghana, and it will not be long before the bug catches on in Nigeria.

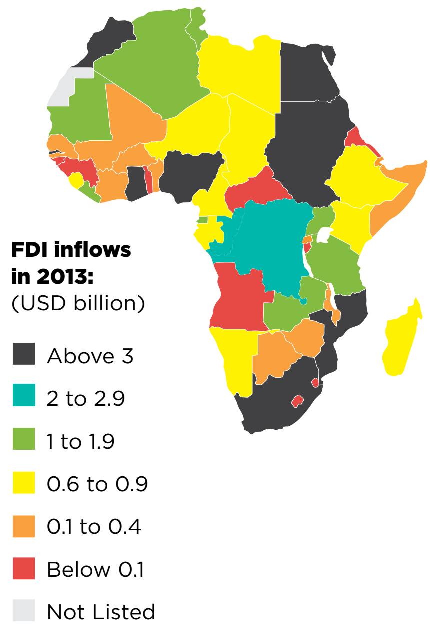
The services industry is already booming but far from saturated in areas such as IT, consulting, accounting and legal. ■

editorial@finweek.co.za

FOREIGN DIRECT INVESTMENT (FDI) FLOWS INTO AFRICA IN 2013

Africa's top recipients of FDI in 2013 (USD billion)

	Country	2013	2012
1.	South Africa	8.19	4.56
2.	Mozambique	5.94	5.63
3.	Nigeria	5.61	7.13
4.	Egypt	5.55	6.88
5.	Morocco	3.36	2.73
6.	Ghana	3.23	3.29
7.	Sudan	3.09	2.49
8.	DRC	2.10	3.31
9.	Congo	2.04	2.76
10.	Equatorial Guinea	1.91	2.02



SOURCE: Compiled by IDC from UNCTAD's WIR 2014 data

Cultivating **leadership** in Africa

BY LIESL PEYPER

Africa is a vast continent with an abundance of natural resources. Yet the majority of Africans still haven't been able to benefit from the offshoots of these riches. But Frik Landman, CEO of USB-ED, believes we will indeed be able to unlock opportunities on our continent.

Many business people still regard Africa as the "last investment frontier", despite recent pressure on oil, commodity prices and emerging market currencies. According to figures cited at this year's World Economic Forum (WEF) on Africa, seven of the 10 fastest-growing economies in the world are on this continent and it remains a promising investment destination.

"Africa has approximately 60% of the world's arable land, 42% of its natural resources and 640m people under the age of 24, which can all count in our favour," says Frik Landman, CEO of USB-ED, a leadership development entity that forms part of the University of Stellenbosch Business School (USB).

USB-ED has extricated itself from the USB's MBA course and started focusing on executive and leadership development and management consulting. The institution replicated its South African academic model and has established similar ones in 14 countries on the continent.

Landman's involvement with USB-ED's expansion into Africa has deepened his understanding of the continent and its people. "Essentially there are three forces at work in Africa: The public and private sectors and civil society – the 'golden triangle'." Unfortunately, these entities tend to operate in isolation, says Landman. Many opportunities could be unlocked if they'd rather function in unison. "The existence of a management school like USB-ED can play a big role in [addressing this]. We can bring the three role players together as opposed to just focusing on the private sector as traditional business schools [have done] over the years," he says. "We've formed networks with various non-government organisations and even churches to expand our reach on the continent and it has paid off."

Landman and his team are in the process of establishing "knowledge nodes" in five regions on the continent – South Africa, the SADC region, as well as East, Central and West – through which business, management and leadership knowledge can be shared.

Like other thought leaders Landman laments the fact that Africans are among the poorest people in the world, despite the continent's incredible riches. "The problem is that Africa hasn't been able to convert its natural resources to the benefit of its inhabitants, but I believe we can start unlocking potential by cultivating leadership and management skills on the continent. When people have these qualities they can start breaking out of poverty."

Apart from creating visionary leaders and managers on the continent, Landman also believes Africa needs a common ethos. "We need to have the same developmental goals and all countries need to agree," says Landman, "but I don't think it's currently there.

"We have numerous initiatives for sustainability, for example, but they're too fragmented, partly because of cultural and language differences. But a common development ethos on which there is broad agreement will be the glue that binds Africa's more than 55 countries together across borders, trade blocs and diversity," he says. ■

editorial@finweek.co.za

AFRICA-BOUND

Landman's advice for South African investors looking to Africa:

- Do your homework and pay a visit to your potential investment destination. What works in one country doesn't necessarily work in another, even though you may be convinced that there is definitely a market for your product or service.
- Be adaptable and culturally sensitive. One way to address cultural diversity is to get local people on board in your business – they know the language and customs.
- Make provision for infrastructure challenges that may hamper business operations.
- Put your own financial systems in place, as getting funding and transferring money in Africa are unpredictable.
- Consider entering the economy through the informal sector – this is where the opportunities are. According to the African Development Bank, nine in 10 rural and urban workers in Africa are employed in the informal sector.

Frik Landman
CEO of USB-ED

SABMiller's 5 lessons for African expansion

BY LAMEEZ OMARJEE

Over the past 20 years, SABMiller has grown from a largely South Africa-focused business to a global beer behemoth. Operations on the continent alone generated $1.9bn (R26.3bn) in earnings before interest, tax, depreciation and amortisation (EBITDA) in the year to end March – about 25% of its overall business.

Africa is a "legitimate investment opportunity" in the long term, says Mark Bowman, managing director of SABMiller Africa. There is room to increase beer demand on the continent: in SA, annual beer consumption is around 58 litres per capita, compared with around nine litres on the rest of the continent.

In addition, Africa shows consistent levels of population growth, GDP growth and increasing urbanisation. "From an FMCG [fast-moving consumer goods] perspective, these are numbers you just can't bet against," Bowman said at a forum discussion at the Gordon Institute of Business Science before Anheuser-Busch InBev, the world's biggest beer brewer, announced its intention to acquire SABMiller.

He shared some of the lessons learnt in expanding into Africa:

LOCAL MARKET INSIGHTS HAVE HELPED EXPAND THE BUSINESS ACROSS THE CONTINENT:

1. Think of the business model differently.

"You are never quite sure if the logistics in Africa are a problem or an opportunity," says Bowman. Once problematic logistics are overcome, they only become a problem for competitors.

In establishing a supply chain, SABMiller found that building small modular breweries and managing water and power supply were better and more efficient than large breweries. Investment in local infrastructure to develop breweries and malting facilities creates value by localising costs and avoiding exposure to currencies like the euro and dollar, says Bowman.

2. Don't wait for the environment to improve before making an investment.

There is an opportunity to get returns by investing ahead of demand. But Bowman says they have made a few mistakes in this regard. The business wouldn't take flight in Kenya in the late 1990s and early 2000s. "Arriving with a South African flag was not necessarily the best thing to do," says Bowman. It unleashed a "ferocious" competitor in East African Breweries Ltd (EABL), brewer of brands like Tusker. It lost about $10m a year in the market and pulled out in 2001, after four years. (Afterwards, some SAB brands were brewed under licence by EABL.)

Gallo Images/iStock

3. Don't have a "briefcase" mentality.

SABMiller arrived late to the Nigerian market and struggled to get a footing for 10 years. It realised that sending people with briefcases to negotiate acquisitions wasn't the best approach and decided to send three or four people to develop an import model instead. SABMiller finally acquired a defunct brewery and put together a three-year business plan, which only turned around after four years of losses. Bowman says the Nigerian market was simply one they couldn't ignore. "It's ultimately much more valuable than the South African market, but it's not easy to unlock."

4. Be seen as a force for good.

Senior management should be left to engage with stakeholders and governments. The most powerful way to build relationships with leaders was through helping to build local farming capacity. One of the main challenges they often face in developing local beer capacity is getting authorities to reduce excise duties, a key cost component for beer brewers.

5. SA is more professional, Africa more entrepreneurial.

SA serves as a gateway to Africa, and although it sounds obvious to merge the businesses, they are fairly distinct. There are slight cultural differences, but experiences and expertise developed in either parts of the world are equally valuable, says Bowman. The advantage of a global company is the internal competition to keep up with global standards. "There's always some market innovation," he says. ■

editorial@finweek.co.za

The war on **online advertising** is intensifying

BY DAVID GLANCE
Director of UWA Centre for Software Practice,
University of Western Australia

A new front in the war against online advertising has opened up with the official release of Apple's latest mobile operating system, iOS 9. The most contentious feature was the ability for the mobile version of Safari to allow extensions to block ads.

Not only was there ad blocking software ready for installation on the day of the launch, but one application, Peace, became the top downloaded paid app on the iTunes App Store. The developer, Marco Arment, justified the need for ad blocking because online ads were engaging in excessive tracking and taking up space, data allowance and generally making the mobile browser experience worse for everyone.

But then, barely a day later, Arment pulled the app from the App Store, declaring that he didn't "feel right" profiting from blocking other peoples' ability to make money from ads. On Twitter, Arment went from being "immensely proud" of his app hitting the number one spot on iTunes to announcing

A man in his thirties browses the channel selections on Apple TV at his home in Las Vegas. Apple TV is a digital media player developed and sold by Apple Inc. It is a small network appliance and entertainment device that streams movies and television shows to a television screen.

that he was pulling it from the store.

Although Arment hasn't elaborated on the precise technical reasons for pulling the app, it seems that the people behind Ghostery, the ad-blocking technology that underpinned the app, decided that his implementation was not how they imagined their software being used.

Ghostery advocated for users of ad blockers to be "empowered" to decide for themselves what ads and trackers to block rather than the pre-emptive blocking that had been implemented in the initial version of Peace.

THE PUBLIC MAKES ITS VIEWS CRYSTAL CLEAR

Since Peace has capitulated, another ad blocker, Crystal, has taken the vanguard as the most downloaded paid app on iTunes.

Setting aside the arguments for or against online advertising, one thing is absolutely clear: the public do not want advertising to be part of their web browsing experience. So it really doesn't matter whether websites see this as the only way that they can find to provide free content.

The argument that this is all about bad versus good ads is also clearly not an issue anymore. Ad blockers could render all ads obsolete, regardless of their perceived quality. Nobody is going to spend any time worrying about whether they should unblock particular ads.

Ghostery may have had laudable ambitions for an honest dialogue about ad tracking and ad quality, but it isn't a conversation that the general public is interested in having. They simply want a total victory over online advertising.

THE FALLACY OF THE IMPLIED CONTRACT OF ADS FOR CONTENT

In the debate about the role of advertising, advocates have argued that it enables the supply of free content. If not for advertising, people would have to pay for the content through subscriptions.

So, in essence, there is an "implied contract" between consumers of a site and those providing the free content: website visitors get access to the content in exchange for being subjected to ads and providing private information through tracking their use of the site.

The problem with this argument is that visitors are never given the explicit choice to make that informed decision. The "contract" also conveniently leaves out the fact that, in addition to the loss of privacy and the visual experience of ads, their data allocation is going to be used, web pages will load slower, and overall, their experience of the site will be diminished.

The argument for the need for advertising is a weak one. There are plenty of businesses that have shown that people are willing to pay for content if it is packaged such that they can easily see value for money.

Netflix and Hulu are examples of services that people are prepared to pay for in exchange for both the content and it being advertising free. In fact, many companies see the annoyance that customers feel with ads as a way of driving them to pay for versions of their apps that get rid of them.

THE AD WARS WILL CONTINUE

The war on advertising is far from over. Google, Apple and others are still going to provide ads in the protected environments of their apps, and in Google's case, its videos.

Advertisers will continue to sell ads to clients who will, in turn, hope that they can get their ads in front of the remaining people who don't use ad-blocking software.

What the enormous popularity of ad-blocking software has shown is that, if there is an "implied contract" for access to content in return for viewing ads, the public clearly is not willing to agree to it.

This leaves content providers with a clear message that they will need to find alternative ways of supporting the provision of that content like many other businesses do, without the use of advertising. ■

editorial@finweek.co.za

This article was first published by The Conversation Africa and can be accessed at https://theconversation.com/africa.

THE CONVERSATION

WHY BLOCK ADS?

Software programmer Marco Arment published this on his blog, marco.org, on the launch of his ad blocker Peace in September:

Web advertising and behavioural tracking are out of control. They're unacceptably creepy, bloated, annoying and insecure, and they're getting worse at an alarming pace.

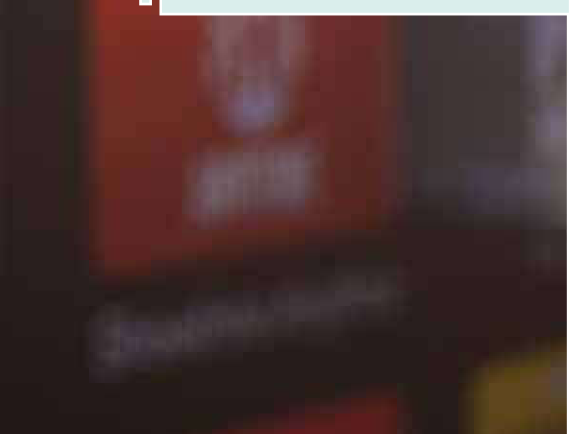
Ad and tracker abuse is much worse on mobile: ads are much larger and harder to dismiss, trackers are harder to detect, their JavaScript slows down page-loads and burns battery power, and their bloat wastes tonnes of cellular data. And ads are increasingly used as vectors for malware, exploits and fraud.

Publishers won't solve this problem: they cannot consistently enforce standards of decency and security on the ad networks that they embed in their sites. Just as browsers added pop-up blockers to protect us from that abusive annoyance, new browser-level countermeasures are needed to protect us from today's web abuses.

And we shouldn't feel guilty about this. The "implied contract" theory that we've agreed to view ads in exchange for free content is void because we can't review the terms first – as soon as we follow a link, our browsers load, execute, transfer, and track everything embedded by the publisher. Our data, battery life, time, and privacy are taken by a blank cheque with no recourse. It's like ordering from a restaurant menu with no prices, then being forced to pay whatever the restaurant demands at the end of the meal.

If publishers want to offer free content funded by advertising, the burden is on them to choose ad content and methods that their readers will tolerate and respond to.

SOURCE: marco.org



Gallo Images/iStock

BUY SELL ✔ HOLD

SABMILLER

Down your beer and leave

BY SIMON BROWN

I WROTE ABOUT SABMiller last week and the potential Anheuser-Busch InBev deal. But what should those holding the share do?

There are three possible outcomes for the stock. The deal gets cancelled and the price drops, potentially a lot, as many of the SABMiller share price gains over the last four to five years have been based on rumours of an eventual offer. If this is totally off the table, the price will likely lose more than the 20% it gained on the confirmation of the rumour.

The other two options are around a deal offered at current price levels or maybe another 10% higher; this is what I would expect. So current shareholders have some possible, although modest, upside considering how well the share has been doing. The other major option would be a serious downside.

Assuming you bought the share before the official announcement of an impending bid, you've done well and if I were a shareholder, I would take my money and run. ■

Simon Brown
Last trade ideas

- BUY iShares US Real Estate (ETF)
- BUY The Walt Disney Company
- SELL Impala Platinum
- BUY Metrofile

BUY ✔ SELL HOLD

Curro Holdings

Surging to new highs

BY MOXIMA GAMA

WHILE CURRO HOLDINGS had to withdraw an offer to take over Advtech and create a R21bn private education group in South Africa in July, the group's original expansion plans have continued undeterred. On 22 September, Curro, in which PSG Group holds 58.5% (also see page 35), announced the acquisition of Namibian private school Windhoek Gymnasium for R180m, its first acquisition outside the country.

Curro CEO Chris van der Merwe said the group will continue to focus mainly on SA, but that it would take a look at "compelling opportunities" outside its borders. With a rising middle class, there is growing demand for better schooling. In Namibia, there may be scope for further expansion for Curro, Van der Merwe told reporters at the time of the deal announcement.

Finding opportunities is not an issue for Curro, which managed to raise R740m in May to buy new schools. It plans to expand the capacity at Windhoek Gymnasium to 2 600, from the current 1 509 learners, and will also look at developing a separate primary school. Overall, the group aims to build 200 schools (or 80 campuses) and enrol 90 000 students by 2020. It currently operates 100 schools (or 42 campuses) with more than 36 000 learners.

Though it might face some risk in property developments, due to potential delays by municipal red tape, and schools possibly not initially filling up as expected, I believe Curro is in a niche position and its long-term outlook seems promising.

Since the quality of public school education in SA is seen to be in decline, Curro's popularity has risen. Its share price has surged nearly eight-fold since listing on the JSE four years ago, valuing the group at R12.3bn.

I expect Curro to appreciate to new highs, with the first short-term target being at R45.90. A good entry point would be at any level above R38.50, with an aggressive reload above R40.50. A trailing 8% stop loss is recommended. ■

editorial@finweek.co.za

Moxima Gama
Last trade ideas

- SELL Netcare
- BUY Telkom
- HOLD Steinhoff International
- BUY Datatec

A **Namibian fund** beating currency weakness

BY JACO VISSER

THE BANK WINDHOEK INTERNATIONAL FUND

The Bank Windhoek International Fund is a Namibian dollar-denominated fund giving local investors an opportunity to invest their money in developed-market stocks and diversify away from South African- and Namibian-listed companies. The fund invests in shares and exchange-traded funds (ETFs) and uses the MSCI World Index, a globally-recognised gauge of world stock performances, as its benchmark.

FUND INFORMATION:

Benchmark:	MSCI World Index
Fund managers:	Tertius Liebenberg, Floris Bergh and Relf Lumley
Total expense ratio (TER):	1.55%
Fund size:	N$490.1m
Minimum investment amount:	N$10 000 lump sum or N$1 000/month*
Contact information:	investorservices@cih.com.na or +26 461 299 1950

**Only for individuals with a Namibian bank account*

PERFORMANCE (ANNUALISED) AS AT 31 AUGUST 2015 (NET OF FEES):

	1 year	2 years	3 years	Since inception in March 2012
Bank Windhoek International Fund	18.71%	20.12%	27.44%	26.64%
•Benchmark:	17.12%	20.15%	26.71%	25.45%

PORTFOLIO COMPOSITION AS AT 31 AUGUST 2015:

1.	Cash	7.25%
2.	Apple Inc	2.29%
3.	Bayer AG	1.51%
4.	Microsoft Corp	1.22%
5.	Exxon Mobil Corp	1.05%
6.	Siemens AG	1.05%
7.	Daimler AG	1.05%
8.	BASF	1%
9.	Allianz	0.98%
10.	Wells Fargo & Co	0.92%

Fund manager insights

THE BANK WINDHOEK International Fund, managed by Windhoek-based Capricorn Asset Management, follows a top-down approach to choosing the relevant EFTs in which they invest, according to Floris Bergh, chief investment officer.

The fund's largest holding is a SPDR ETF, which gives it a big exposure to US stocks, according to Relf Lumley, one of the fund's managers. Due to the MSCI World Index being the benchmark of the fund, it would necessarily have a large exposure to US-listed stocks.

The fund is skewed towards Europe and especially German stocks, Lumley explains. With the economic tide turning on the continent and as a result of years of scepticism by investors toward Europe, many stocks are relatively well priced, according to him.

"There is quite a bit of value in Europe," Lumley says. "They're coming from a very low base and Europe is structurally the place to be."

Stronger economic growth and easing tension about the Greek debt crisis makes the continent's stocks increasingly alluring, according to him.

The fund isn't too optimistic about developing economies and bets against stocks from these countries, according to Lumley. Brazil poses political stability risk and China's economy is cooling down, for example, he says.

WHY *FINWEEK* WOULD CONSIDER ADDING IT

The fund is a solid option for those Namibian investors who'd like to invest in developed market stocks. Some of the names in the top-10 holdings have huge sales and exposure to emerging markets in any case, such as Apple Inc and Daimler AG. As the Namibian dollar is tied on a 1:1 basis with the rand and subsequently the rand's weakness to the US dollar, the fund offers hedging possibilities. A focus on undervalued international financial stocks makes the fund well-placed to benefit from any economic upturn in developed markets, which would potentially see a jolt in these stocks. In addition, the fund's total expense ratio is very low compared with its size and performance. ■

editorial@finweek.co.za

finweek

How to **build wealth**

BY SIMON BROWN

I've been thinking about what wealth creation is about at its core. What are we actually trying to do when creating wealth? Simply put, it is about collecting assets.

But before we start with assets, we need to touch on liabilities. Liabilities are debts and debt is simple: credit cards, home loans, store cards, vehicle finance and the like; anything that costs us money is a liability. Some we need (home loans); others we use to meet our wants (a fancy car). Debt is usually incurred to fund lifestyle expenses and while that works today, it cramps our future lifestyle as we end up paying a lot more for whatever it is we purchased via the interest we pay. Furthermore, the interest payments reduce our ability to save and invest.

Now, assets are the other side of the equation; they are things we own that pay us money. But not all assets are actually good assets. A car is a wasting (depreciating) asset as its value is constantly decreasing and it doesn't bring us money at all (it actually costs a lot to run). Ideally, we should therefore get a cheap car so it does not depreciate as much and running costs are lower.

What we want is an asset that actually pays us, in other words works for us without us having to do anything. This is where shares on the stock market come in.

Large companies are bought and sold on the stock market and we can buy a small slice of these companies. These quality assets make profits, some of which will then be shared with us by the owners of the company via our shares.

These profits come in the form of dividends paid twice a year (in most cases) to the shareholders. You see we own a slice of the company (asset) and as such we own an equally-sized slice of all future profits.

These shares make us money by paying dividends (the sharing of the profits), but also because the value of the company goes up. This happens when the company is doing well and more people want to own some of the company via its listed shares. If more people want to own some of the company's shares, we have higher demand for the same number of available shares and this higher demand pushes the price of the shares higher. So we could sell them for a profit, but as a rule I like to keep them as an asset on my balance sheet and take home my slice of the profits.

Those profits or dividends will start small, maybe 2% to 5% of the initial price you paid, but as profits increase and the company grows, so will your slice of the profits. Soon you'll be receiving handsome dividends from your assets.

The problem is that far too often we focus more on the liability side of our balance sheet. We buy things that are depreciating assets, or worse, we buy things that are simply not assets. Worse still, we fund them with debt.

So the place to start right now is to review what you own and what debts you have. Make a decision to focus on spending as little as possible on depreciating assets and liabilities and using as little debt as possible. When we start doing this, we'll find more money left over every month and we can use that money to start buying assets in the form of shares on the JSE. ■

editorial@finweek.co.za

Gallo Images/iStock

PSG: Is there room for further upside?

BY MOXIMA GAMA

After a four-month consolidation, PSG Group could extend its gains in the short term. PSG consists of a diverse range of underlying investments that operate across various industries, such as financial services, banking, private equity, agriculture and education.

It classifies its operations into seven reportable segments: Capitec Bank, Curro Holdings, PSG Konsult, PSG Private Equity, Thembeka Capital, Zeder Investments and PSG Corporate. The services offered by PSG Konsult consist of financial advice, stockbroking, fund management and insurance, while Curro offers private education services. The other segments offer financing, banking, investing and corporate finance services. The group also provides legal, financial and regulatory support and advice to listed and non-listed clients.

PSG has a market capitalisation of nearly R48bn, while it has influence over companies with a combined market capitalisation of around R130bn.

PSG co-invests in companies with uncomplicated business models operating in industries with attractive growth prospects. The group has adopted a long-term strategic way of investing by means of acquisitions, and provides funding when needed. Its business model therefore lies somewhere in between venture capital and private equity. Deals are not financed with scrip or with debt, but with equity, meaning the companies in PSG's portfolio are not debt laden. This year PSG achieved milestone results for the financial year ended February – its consolidated recurring headline earnings exceeded R1bn for the first time.

Through a transaction with the black-owned investment company Thembeka Capital, PSG Group increased its shareholding in Capitec Bank – already its biggest investment – from 28.3% to 30.7% this year.

Due to changes in the over-the-counter trading rules as well as BEE investment trends, Thembeka Capital, PSG's long-time BEE partner, had to unwind its business. PSG acquired 51% of Thembeka, repurchasing a portion of shares it did not already own. A deal that was financially neutral for PSG, but quite beneficial to Thembeka shareholders, who received 1.7 PSG shares for every one Thembeka share they held.

Another star performer has been Curro Holdings, which reported a 67% increase in diluted headline earnings per share to 14.5c in the six months to end June. PSG expects Curro, in which it holds a 58.% stake, to contribute significantly to its earnings in years to come. Curro bought a school in Windhoek – its first acquisition outside South Africa – in September. It plans to expand the capacity at Windhoek Gymnasium to 2 600, from the current 1 509 learners, and will also look at developing a separate primary school. Overall, Curro aims to enrol 90 000 students by 2020, up from around 36 000 currently (also see page 32).

POSSIBLE SCENARIO: The company is currently flirting with major resistance at R215.35, which, once breached, should push PSG to the R263.70 upside target in the short term (one to six months). But the relative strength index (RSI) must trade through the upper red slope to substantiate the breakout on the price chart.

ALTERNATIVE SCENARIO: PSG has failed to trade through that R215.35 resistance level a few times before. A downward reversal would extend the R215.35 and R167 range band, with PSG potentially topping out below R167. In which case, a short would be recommended. ■

editorial@finweek.co.za

PSG GROUP

52-week range:	R95.01 - R225.48
1-year total return:	+135.9%
Current P/E ratio:	27.25
Market capitalisation:	R49.47bn
Earnings per share:	R8.19
Dividend yield:	0.9%
Average volume over 30 days:	438 943

SOURCE: Bloomberg.com

Simon's stock **tips**

BY SIMON BROWN

VOLKSWAGEN: TAKE A LESSON FROM THE BP SPILL

VW is all over the news for cheating on emission tests and the share is down some 20%. As a result, many are asking if this is perhaps a buying opportunity. My answer is no, simply because there is far too much uncertainty and at this stage nobody knows how bad the issue is; more importantly, how much it will eventually cost the carmaker. The BP Deepwater Horizon spill in the Gulf of Mexico in 2010 is a perfect example of how things can escalate. At the time it was expected that it would maybe cost BP some $2bn. That soon increased to $40bn and after a final judgment in July this year, the cost has ended up at over $70bn. The share currently trades half of what it was back when the spill happened, although current weak oil prices are not helping. With VW, many are suggesting a cost of $18bn and the company has set aside $7.3bn, but the final figure could end up being multiples of these amounts. With this much uncertainty, I stay away. Risk I am happy with (assuming the level of risk is acceptable), but uncertainty I avoid as we cannot price it in any meaningful way.

The logo of German manufacturer Volkswagen is seen outside a dealership in Battersea on 25 September in London, England.

Gallo Images/Getty Images/Rob Stothard

COMMENTARY FROM CONDUIT A MUST-READ

Conduit Capital has been in the news for all the wrong reasons this year after a major board shake-up that saw CEO Jason Druian ousted (and sell much of his holding). What makes me want to have a closer look at the company is not so much its performance, but rather the results commentary from new CEO Sean Riskowitz. He explains in simple language what the plan is for the company, how he and the board are going to move forward and how they will allocate capital. This last point is crucial as Conduit is an investment holding company, so capital allocation is really the board's key job. Even if the company is not investment grade, this is worth reading.

EXPENSIVE ROAD AHEAD FOR TASTE

The Taste Holdings update shows the company swinging to a headline loss per share for the six months ending August. This loss is from the food division and the issue is the roll-out of the Domino's brand as existing Scooters Pizza and St Elmo's stores are converted and staff trained. These costs will in part start to reduce, but the exercise is expensive and the company will now also have the cost of rolling out an expected 150 Starbucks stores in the short term. This will also incur significant costs and earnings will be depressed for a while yet. When the Starbucks deal was announced in July and the stock was trading at above R5, we suggested it would be a tough few years for the stock. This certainly is playing out as expected. One noteworthy comment from the update was that Taste now supplies Domino's with some 95% of ingredient and consumable requirements; this is important as it means that Taste is earning on both sides – 'sales' to the store and sales to the consumer.

PPC FEELS THE HEAT

The PPC update shows tough market conditions while projects in DRC, Zimbabwe and Ethiopia are approaching the halfway stage of completion and "all geographies recorded flat or declining cement selling prices". On the back of that, competition in the space continues to heat up with reports that Nigeria's Dangote Cement is looking to build a $400m (R5.6bn) plant in Zimbabwe. This will compete head on with PPC's new Zimbabwean plant and may also export across the border into South Africa, adding further pressure here. Add to this Sephaku, which is ramping up production, and imports that are still coming into the country. This makes for reduced demand, especially as the construction and mining industries continue to struggle. ■

editorial@finweek.co.za

Foord Flexible Fund: Good for the long term

BY CRAIG GRADIDGE
Co-founder of Gradidge-Mahura Investments

In my last Pro Pick, I offered investors a 'hiding place' in the highly volatile market environment we found ourselves in then, and still find ourselves in. As expected I received a few emails from people wanting an option where they could continue to invest in growth assets, without having to decide when it was time to get back into the markets. Many also did not wish to be burdened with deciding where to invest if they did commit fresh capital to these markets.

For these investors we would suggest that they consider the unit trust Worldwide Multi-Asset Flexible category. Funds in this category give the manager full discretion in terms of which assets to invest in, locally or internationally.

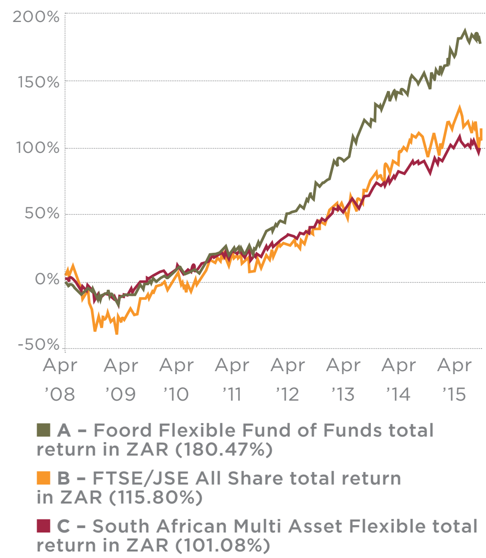
It is important that the investor reads the mandate of any fund they would like to invest in to ensure that there are no self-imposed restrictions on where to invest from the manager's side. Our preference in this category is the Foord Flexible Fund (FFF), which was launched in 2008. The fund has since attracted almost R8bn in investments, and has delivered solid results.

The chart below shows the asset allocation of the fund over time. What is clear from the graph is that this is an actively managed fund. The manager had over 50% exposure to local equities in 2010, and today has less than 15% exposure.

One attraction of actively managed multi-asset class funds is that switches between asset classes do not trigger capital gains taxes (CGT). It is only when the investor exits the fund that CGT becomes payable.

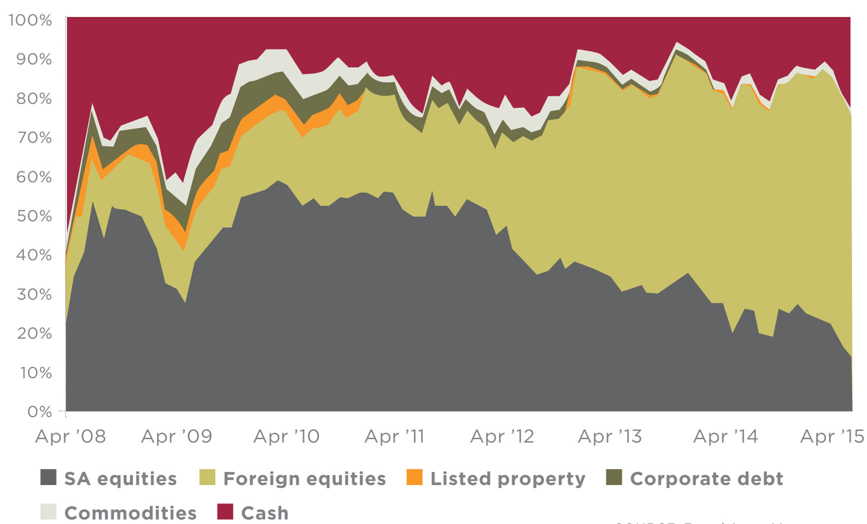
The fund is managed by Dave Foord, who is supported by a team of investment professionals and analysts. Foord has an enviable track record in managing multi-asset mandates. He has one of the longest unbroken track records, having managed retirement fund monies since the early 1980s. The track record of the FFF is shown in the graph on the right, relative to the sector and to the prime growth asset class, listed equities. The fund has outperformed both since inception, on a risk-adjusted and after-fee basis.

How it stacks up



SOURCE: Profile Media, Fund Analytics

Asset allocation: Foord Flexible Fund



SOURCE: Foord Asset Management

The fund has a performance benchmark of CPI+5% p.a. It also has a performance-based fee structure that sees the investor paying a fee of 1% plus VAT for benchmark return, with the manager sharing in the upside at a rate of 10% of the outperformance. The performance fee is calculated over rolling 12-month periods, which is great because periods of excess return do not 'hang around' for too long. The structure is also fair in that the manager earns lower fees when the fund underperforms the benchmark.

This is a solid option for the long-term growth investor who does not want the hassle of finding growth assets to invest in, or the administrative burden of switching between asset classes over time as things change. ■

editorial@finweek.co.za

Where would we be without **Naspers** and **SABMiller**?

BY SCHALK LOUW
Portfolio Manager At PSG Wealth

One of the interesting things about fishing is the use of lures, or more specifically, rubber worms. They come in a wide variety of colours and fish love them. However, it doesn't matter how much they resemble the real thing, the fact remains that they are fake. Unfortunately fish aren't the only living beings caught this way: investors are often caught on 'lures' as well.

The South African General Index Unit Trust sector provides us with the perfect example to illustrate my point. From the beginning of 2015 (up to 21 September), only 28 out of the 150 fee-paying funds can pride themselves on outperforming the JSE's Top40 Index. This means that only 18.7% have been successful, and that investors probably would have been better off by investing in exchange traded funds in 2015.

But what does this have to do with lures? Well, the fact that the market still reflects positive results for the year, even in these troubling times, doesn't mean that your personal investment or fund also reflects positive results for 2015.

Two shining stars on the JSE this year have been SABMiller and Naspers*. These shares have grown by 24% and 13% respectively in 2015, compared with the Top40's 3% (excluding dividends) for the same period. What we need to keep in mind, however, is the weight these shares carry in the index.

With SABMiller contributing 13% and Naspers contributing 11% to the Top40 Index, nearly a quarter of our total index is made up of these two shares alone. Without these two shares, the Top40 Index would not only have been weaker, but would have in fact reflected negative results for 2015.

FTSE/JSE TOP40 INDEX WITH AND WITHOUT SABMILLER AND NASPERS

Source: INET BFA

You would think few fund managers would be brave enough to manage a fund with the market as its benchmark without including SABMiller and Naspers in the fund's composition. However, there were funds that did exactly that.

> THE FACT THAT THE MARKET STILL REFLECTS POSITIVE RESULTS FOR THE YEAR, DOESN'T MEAN THAT YOUR PERSONAL INVESTMENT ALSO REFLECTS POSITIVE RESULTS.

As an example, let's have a look at the Domestic General Equity unit trusts that mainly use the FTSE/JSE All Share Index as their benchmark. Most funds supported Naspers, with only 37% of these funds (for which data was available) not having included Naspers in their top 10 holdings by the end of June 2015.

SABMiller paints a different picture altogether. With due consideration for the possible corporate action that has pushed up the brewer's share price recently, only 22% of the funds for which data was available included SABMiller in their top 10 holdings at the end of June.

Funds that decided to keep or to include these two shares in their composition did so by assigning much lighter weights to the shares than they carry in the index, with an average weighting of 6.6% to SABMiller and 7.7% to Naspers. It should come as no surprise then that the total average return of 2.45% for domestic general equity managers is much lower than the Top40 Index's return of 6.03%, and the All Share Index's return of 4.7% for 2015. Only time will tell whether this was smart positioning, or not.

Ironically, we found ourselves in a similar situation in June 2007. By the end of that month, Anglo American and BHP Billiton were by far the two biggest companies in the Top40 Index, with a combined weight of 28%. However, few funds included these shares in their compositions. Today, these companies make up only 8% of the index, so be extremely careful not to be caught by 'lures' that merely resemble the real thing. ■

editorial@finweek.co.za

*Finweek *is a publication of Media24, which is a subsidiary of Naspers.*

Shiller's secret weapon says: **Beware!**

BY LUCAS DE LANGE

Be careful, the New York Stock Exchange (NYSE) is currently at levels that have in the past preceded major international bear markets.

This is a recent warning by Professor Robert Shiller of Yale University in the US. He is a former winner of the Nobel Prize for economics and has been singled out as one of the world's top 100 economists. Furthermore, he has acquired an international reputation with the accuracy of his predictions. Shiller is the author of the renowned *Irrational Exuberance*, which was published in March 2000, when the dot-com bubble was at its zenith.

He uses a number of indicators, but his "secret weapon", which has never failed him, is the Cyclically Adjusted Price-Earnings ratio (CAPE). It is based on a special price/earnings multiple (P/E), which is not nearly as volatile as the traditional method of dividing a share price by one year's earnings. CAPE is based on the market's average earnings, adjusted for inflation, over the preceding 10 years.

It's current P/E multiple is 25.1. This compares with the average over 10 years of about 16. Shiller believes that the level of 25.11 is presenting investors with "a bit of a bubble" due to overvaluation.

Since 2009, in about six years, share prices have essentially tripled, and one must take into consideration that investors' confidence in the valuation of the market is waning.

At times there can be vast differences between CAPE and the ordinary one-year-P/E. His research shows that the former is the more authoritative measure, as it has correctly predicted every single market crash since 1871.

Shiller does not recommend that investors should sell (it can be dangerous for the market!), but he is adamant that caution is required (read: reduce your risk if you are worried).

Investors should take stock of their individual risk profiles. He adds that it's wise to ensure that your portfolio is internationally diversified.

One of the reasons why his views are so important and to a degree even self-fulfilling, is that they enjoy wide publicity in international media. For example, in 2011 Bloomberg identified him as one of the 50 most influential people in international finance.

At the moment investors are somewhat jittery because Shiller's warning is supported by important generally accepted technical indicators such as a downturn in the 200-day moving average of both the Dow Jones Industrial Average and the Standard & Poor's 500 Index, which tracks the 500 biggest companies on the NYSE, the world's leading bourse. The 12-month average has also turned down for the first time in four years.

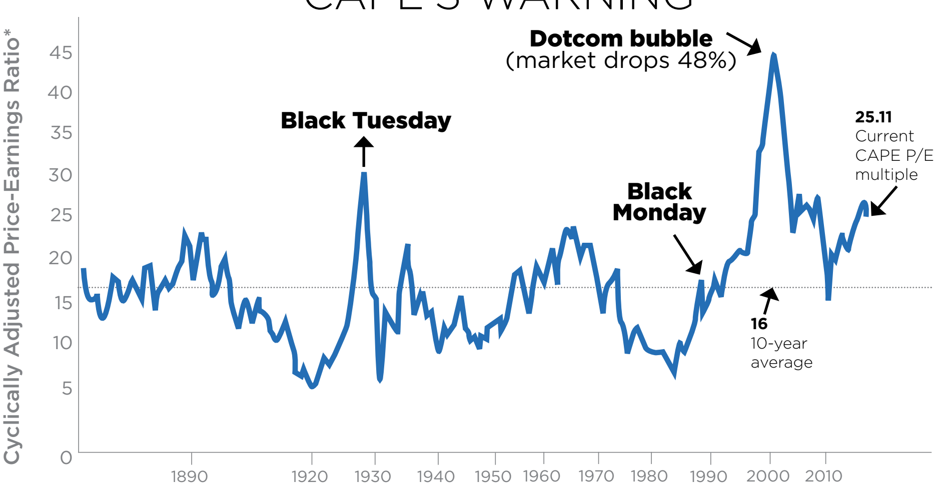
Informed investors remember that the Dow Jones collapsed by about 23% in one day on 19 October 1987. This is why market players refer to it as Black Monday.

In fact, there's talk that there is now even a greater likelihood of a market panic. Not only due to programme trading, but also because the internet and social media today play a far bigger role than in 1987.

Black Tuesday refers to 24 October 1929 when the biggest market crash in modern times started on Wall Street and led to the Great Depression that ravaged the world for 10 long years. ■

editorial@finweek.co.za

CAPE'S WARNING



*New York Stock Exchange

Should you fix your **retirement income?**

BY BUHLE NDWENI

Most people take out retirement products with the hopes that their savings will provide sufficient monthly income once they retire, but turbulent financial markets and higher-than-planned-for inflation can wreak havoc with even the most diligent saver's retirement plans.

Recognising the need for consumers to have security in an uncertain economy, Liberty designed a retirement annuity and preservation fund that will guarantee investors' income after retirement.

Liberty's Agile product is deemed the first of its kind in South Africa, and offers flexibility based on the level of certainty a client wants concerning their retirement income. A percentage of savings can be allocated to the Exact Income Fund – which will provide guaranteed income during retirement – and Liberty's other investment funds, which operate like a traditional retirement annuity.

"Some people may want 100% in an Exact Income Fund because they want to secure everything. Someone else might prefer to retire with a living annuity since it allows them to choose cover and capital, which goes to their beneficiaries when they die, says Mark Lapedus, head of product development at Liberty Investments. Although living annuities are great from that point of view, if you live for very long, the risk is you'll do so without money, notes Lapedus.

MARKET PROTECTION

Older, risk-averse people who are closer to retirement are advised to commit more of their retirement savings into the Exact Income Fund, while younger investors seeking an aggressive growth portfolio should contribute less to this fund, Liberty says.

Mark Lapedus
Head of Product Development at Liberty Investments

The Agile product is designed to offer protection against markets deteriorating just before retirement, leaving investors with insufficient time to recover their financial position. "By securing income leading into retirement, you're provided with an element of certainty. No matter what happens to markets or interest rates, you're going to be okay and have enough money – that's the certainty the Exact Income Fund affords you," says Lapedus.

Certified Financial Planner at Brenthurst Wealth Management, Sonia du Plessis, says opting for a product that offers a fixed outcome in retirement depends on people's personal circumstances.

"It is wise to review the funds saved towards retirement on [an] annual basis. If investors select a product like this – where a certain outcome is guaranteed – they may assume they made sufficient provision and don't look at it at all, and just before actual retirement [realise] that it isn't enough," says du Plessis. "Retirement planning must be taken seriously; investors cannot simply assume or hope things will be fine or somehow 'just work out'."

Du Plessis says the most common mistakes investors make is not taking the effect inflation can have on their retirement income into account. "Inflation is much higher than the stated 3%-6% targeted by government or the Reserve Bank; especially for expenses like medical costs, medical aid contributions and food inflation," she says. ■

editorial@finweek.co.za

GUARANTEED **VS** LIVING ANNUITIES

Du Plessis unpacks the pros and cons:

Sonia du Plessis
Financial Planner at Brenthurst Wealth Management

GUARANTEED ANNUITY

Benefits:

- Fixed income for life.

Drawbacks:

- Income will most likely not keep up with inflation.
- Depending on the product, no capital will be available for the investor's estate for a spouse or children after death.
- Once the decision is made to put money in a guaranteed annuity, the investor cannot change their mind and take capital out.

VS

LIVING ANNUITY:

Benefits:

- Income can be changed annually. "The individual can, for example, start off with low income and increase it as they become older. Income can keep up better with inflation. The investor can nominate beneficiaries: the capital will be part of the investor's estate for a spouse or children after death," she says.
- Once the investor has decided to put money in a living annuity, says Du Plessis, the investor can also decide to put the capital in a guaranteed annuity at a later stage.

Drawbacks:

- Market risk.
- The investor must be cautious about withdrawals; they must be reasonable as setting a high income from the investment can deplete capital, she says.

To buy a franchise or not, that's the question

BY JACO VISSER

Many who aspire to start their own business may rely on a tried-and-tested model to enter the world of enterprise. That's what franchises can offer a start-up business person. *Finweek* looks at the benefits and pitfalls of this business model.

A franchise is a tried-and-tested business concept that is sold by the creators of the brand or business to those who wish to start their own enterprise without the hassle of making expensive mistakes.

The franchisor, or owner of the business concept, sells the idea and business model to another person, called the franchisee, for an initial investment and regular royalty fees. Some of the larger franchises in SA include Pick n Pay Family Supermarkets, Spur Steak Ranches, KFC, McDonald's, Nando's and Mugg & Bean.

Setting up a franchise would typically require the franchisee to put up an amount of capital, of which the largest portion should come from their pocket. The franchisee would be trained in the methods used by the franchisor, such as marketing, procurement, quality assurance and bookkeeping.

"Establishing a business requires the investment of a great amount of time, effort and money," says Ethel Nyembe, head of small enterprise at Standard Bank. "Most potential franchise owners do not have the capital needed to launch and run an enterprise effectively, and therefore rely on borrowing." ■

editorial@finweek.co.za

PROS AND CONS OF BUYING A FRANCHISE

KEEP THE FOLLOWING IN MIND WHEN CONSIDERING A FRANCHISE, ACCORDING TO JOHN BALADAKIS, CHAIRMAN OF THE FRANCHISE ASSOCIATION OF SA:

PROS:

- **Unlike a truly** independent entrepreneur, a franchisee need not prove the viability of the business concept. The franchisor has already tested the concept in their stores.
- **The franchisor will** provide the franchisee with initial training; assist with site selection, fitting out and stocking up of the store; help with staff selection and training and also with pre-opening and opening publicity. The new entrepreneur needn't reinvent the wheel.
- **The franchisor will** provide the franchisee with ongoing assistance in all aspects of operations. This will be linked to quality control and appropriate feedback to the franchisee, aimed at helping the franchisee to improve all-round performance of their business.
- **The benefits of** joint advertising, emanating from the advertising levy that most franchisors charge, maximises brand awareness. The franchisor, with a cumulative marketing budget, can more effectively operate an effective marketing programme from which all franchisees benefit.
- **The combined purchasing** power of the network helps franchisees secure preferential deals from key suppliers. The franchisor either supplies goods to members of the network, or negotiates favourable terms on their behalf.
- **It is a** known fact that the odds for business success are far more favourable for franchised operations than for their independent counterparts, and banks are generally more favourably disposed to lending to prospective franchisees.

CONS:

- **Increased set-up costs:** "The costs of a turn-key franchise, with its upfront fee and the set standards in furnishings, fittings and equipment are often much higher than going into business independently," Baladakis says.
- **Rigid operating requirements:** "For individuals who thrive on experimentation and innovation, this may be a bitter pill to swallow."
- **Ongoing fees:** In addition to the upfront and set-up fee, a business format franchise system requires a contribution in the form of a management service fee (formerly known as a royalty), which is important in sustaining the ongoing support from head office to maintain a well-run franchise operation, says Baladakis.
- **Bad decisions by the franchisor:** "If the franchisor makes mistakes, for example in his reading of market trends, then this could have serious consequences for franchisees in the network," Baladakis says.
- **Restrictions on the sale of business:** An independent operator is free to sell their business whenever they want to and to whomever they choose, says Baladakis. "Within the franchise scenario, the franchisor plays a big role in deciding on the suitability of the franchisee buying an existing franchise," he says.

Is Telkom eyeing **Cell C?**

BY GUGU LOURIE

Struggling mobile network operator Cell C has long been identified as a company that is likely to be gobbled up by a big local telco or a foreign firm. *Finweek* takes a closer look at this potential deal, which has seen speculation about a number of potential suitors, including French telecoms group Orange, South Africa's Telkom and multinational technology firm Dimension Data.

Last month, Cell C's parent company, Dubai-based Oger Telecom, confirmed that it is looking for buyers for its 75% stake in the mobile operator. Goldman Sachs has been appointed to help with the process. Cell C, which was launched in 2001 as the country's third mobile network operator, is yet to earn a net profit.

A cautionary issued by Telkom on 28 September, advising shareholders that it is involved in unspecified talks that may affect its share price, has fuelled speculation that it is looking to buy Oger's stake in Cell C. Bloomberg reported that Telkom has offered R18bn for the stake, substantially below the R22bn it said Oger wants.

Earlier this month Telkom spokesperson Jacqui O'Sullivan said that there was clearly much speculation in the market since Oger made it known that it was looking to sell its majority stake in Cell C. "At the right price, Telkom would certainly consider Cell C, as it would any other synergistic partnerships either locally or internationally," she said.

"Telkom's growth will be predicated on both organic and inorganic growth so acquisitions, such as the recently acquired Business Connexion, certainly remain an option. While much improved, our mobile business remains small and to achieve scalability an option such as Cell C could be part of the approach," she added.

Telkom, with a market capitalisation of just under R35bn, has seen its share price drop nearly 15% in the past six months. The fixed-line operator was embroiled in a labour battle with unions while implementing cost-cutting exercise initiatives.

A telecoms analyst, who asked not to be named, said it would make "sense for Telkom to buy Cell C as this will make them a formidable business and there is no other business locally that can create synergies for Telkom".

The analyst added: "A deal with Cell C may bring back the strength that Telkom used to have before selling its 15% shareholding in Vodacom in 2008 to Vodafone for R22.5bn. Cell C is no longer a small company; yes it is under pressure to perform, but it's taking more customers from its rivals Vodacom and MTN."

A second analyst added: "The possible buyout of Cell C could be part of Telkom's strategy to finally deliver converge services to its customers, as its mobile operation, Telkom Mobile [formerly known as 8ta], is too small to execute that plan."


José Dos Santos
CEO of Cell C

> "AT THE RIGHT PRICE, TELKOM WOULD CERTAINLY CONSIDER CELL C, AS IT WOULD ANY OTHER SYNERGISTIC PARTNERSHIPS EITHER LOCALLY OR INTERNATIONALLY."

Asked about an update on talks by its parent company Oger Telecom to sell its stake in the business, Cell C CEO José Dos Santos told a media briefing in September that there were reports that cited Telkom as an interested party.

"If Telkom is interested in buying Cell C, they must value the business and pay the right price," Dos Santos said.

Meanwhile, the race to buy more telecoms assets by SA's big telcos is heating up. Last week, MTN announced it has concluded a deal with MultiChoice to acquire fibre network deployer Smart Village for an undisclosed amount.

Smart Village, which focuses on fibre networks in gated communities, has an existing network that passes 29 000 residential houses and stands in Gauteng, the Western Cape and KwaZulu-Natal. MTN said the deal will give MTN Business the ability to provide wholesale access to 4 228 businesses passed by Smart Village. ■

editorial@finweek.co.za

Directors' Dealings

Company	Director	Transaction Date	Transaction Type	Volume	Price (c)	Value (R)	Date Modified
ASCENDIS	GJ Shayne	21 September	Purchase	250	1565	3,912	25 September
ASCENDIS	GJ Shayne	21 September	Purchase	250	1576	3,940	25 September
ASPEN	D Redfern	23 September	Purchase	4,750	30740	1,460,150	25 September
ATTACQ	Suca Trust	23 September	Sell	45,000	2296	1,033,200	29 September
CAXTON	PG Greyling	18 September	Sell	7,267	1954	141,997	29 September
CAXTON	PG Greyling	21 September	Sell	349	1955	6,822	29 September
COMAIR	MN Louw	22 September	Purchase	89,268	297	265,125	23 September
DISTELL	PF Carolin	17 September	Sell	1,654	18000	297,720	23 September
DISTELL	CLC Snyman	17 September	Sell	7,211	17499	1,261,852	23 September
EOH	D Mackay	18 September	Exercise Options	625,000	16000	100,000,000	28 September
EQSTRA	JL Serfontein	21 September	Purchase	95,275	299	284,872	25 September
EQSTRA	JL Serfontein	21 September	Purchase	2,532	298	7,545	25 September
GRANPRADE	H Adams	23 September	Exercise Options	1,125,346	361	4,062,499	28 September
GRANPRADE	AE Keet	21 September	Exercise Options	668,504	361	2,413,299	25 September
GROWPNT	MG Diliza	23 September	Purchase	4	2500	100	25 September
GROWPNT	LA Finlay	23 September	Purchase	1,538	2500	38,450	25 September
GROWPNT	JC Hayward	23 September	Purchase	1,409	2500	35,225	25 September
GROWPNT	HS Herman	23 September	Purchase	3,026	2500	75,650	25 September
GROWPNT	JF Marais	23 September	Purchase	1,937	2500	48,425	25 September
GROWPNT	RG Pienaar	23 September	Purchase	81	2500	2,025	25 September
GROWPNT	LN Sasse	22 September	Sell	215,955	2627	5,673,137	23 September
GROWPNT	LN Sasse	22 September	Purchase	310,762	2649	8,232,085	23 September
HCI	JA Copelyn	23 September	Exercise Options	102,442	12349	12,650,562	28 September
HCI	TG Govender	23 September	Exercise Options	11,384	12349	1,405,810	28 September
HCI	Y Shaik	23 September	Exercise Options	7,354	12349	908,145	28 September
LODESTONE	JJ van Wyk	21 September	Purchase	1,000	670	6,700	25 September
Mondi Ltd	TMF Phaswana	23 September	Purchase	29	30496	8,843	23 September
Mondi plc	TMF Phaswana	23 September	Purchase	29	30496	8,843	23 September
NICTUS	JJ Retief	18 September	Sell	100,000	90	90,000	22 September
NICTUS	JJ Retief	18 September	Purchase	9,399	90	8,459	22 September
NICTUS	GRD Tromp	21 September	Purchase	81,449	90	73,304	22 September
NICTUS	GRD Tromp	21 September	Purchase	81,449	90	73,304	22 September
NICTUS	GRD Tromp	18 September	Sell	9,399	90	8,459	22 September
NICTUS	GRD Tromp	18 September	Sell	9,399	90	8,459	22 September
NICTUS	FR van Staden	21 September	Purchase	81,449	90	73,304	22 September
NICTUS	FR van Staden	18 September	Purchase	9,399	90	8,459	22 September
NIVEUS	MM Loftie-Eaton	23 September	Exercise Options	48,221	2670	1,287,500	29 September
NIVEUS	MM Loftie-Eaton	23 September	Sell	48,221	2670	1,287,500	29 September
NIVEUS	A van der Veen	23 September	Sell	396,980	2670	10,599,366	29 September
NIVEUS	A van der Veen	23 September	Exercise Options	396,980	2670	10,599,366	29 September
PEREGRINE	P Goetsch	21 September	Purchase	547,911	3060	16,766,076	28 September
SANTAM	M Allie	22 September	Sell	2,050	22699	465,329	25 September
SEPHAKU	MG Mahlare	23 September	Sell	500	700	3,500	28 September
SEPHAKU	MG Mahlare	23 September	Sell	82,378	725	597,240	28 September

Dividend ranking

SHARE	FORECAST DPS (c)	FORECAST DY (%)
GLENCORE	216	13.0
EQSTRA	32	11.5
DRDGOLD	25	11.4
PAN AFRICAN	17	10.8
REBOSIS	109	10.1

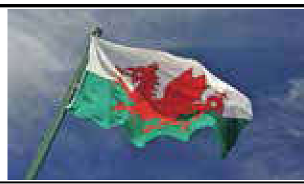
SHARE	FORECAST DPS (c)	FORECAST DY (%)
ANGLO	1072	9.3
LEWIS	528	8.4
EMIRA	146	8.3
ACCPROP	54	8.2
VUKILE	148	8.1

TEST YOUR **KNOWLEDGE**

Have you been paying attention to the news over the past few days? Let's find out! If you get all the answers right, you stand a chance to win Govan Mbeki's *Learning from Robben Island*. The book includes his prison writings, which were intended to educate fellow prisoners, as well as historical, political and economic analyses. To enter, complete the quiz on finweek.com.

finweek

1 Which of these countries has a dragon on its flag?
- Nepal
- Wales
- Uruguay



2 Name the company that is alleged to have made "improper payments" to a front company of the ANC's Chancellor House.

3 **True or false?**
Pope Francis recently went on a state visit to the UK.

4 Name the capital of Swaziland.

5 Name the region that wants to secede from Spain.
- Corsica
- Catalonia
- Chechnya

6 **True or false?**
The Springbok captain will no longer be playing in the Rugby World Cup.

7 What thrust Martin Shkreli into the media spotlight?
- His discovery of liquid water on Mars.
- His recent ousting as autocratic leader of Romania.
- His move to increase the price of a life-saving drug by over 5 000%.

8 Which South African recently debuted as the new host of US late-night talk and news satire televsion programme *The Daily Show*?

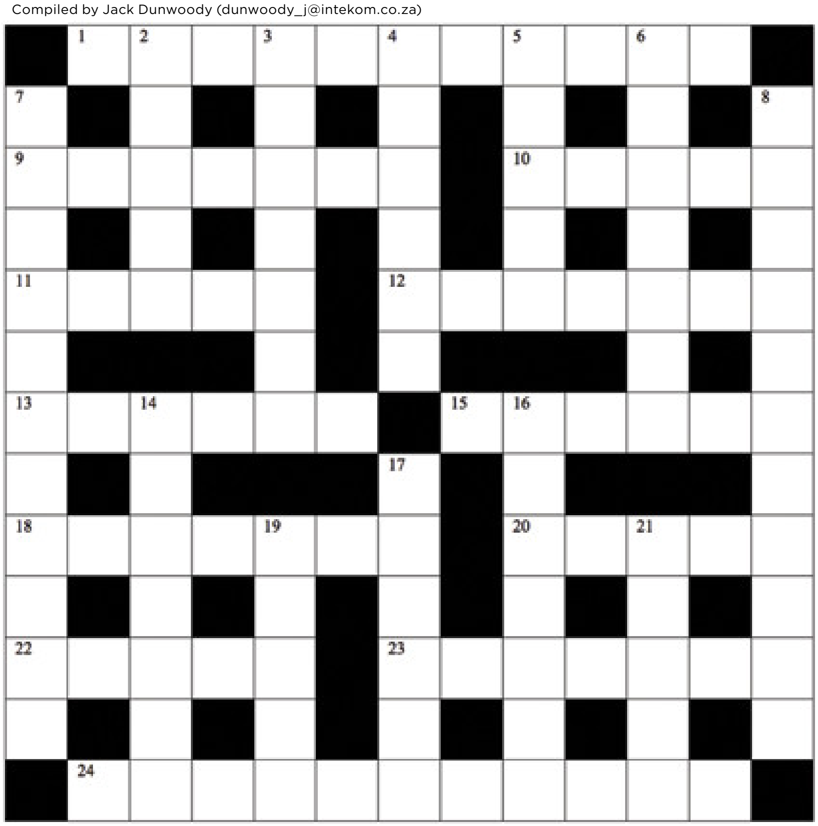
9 **True or false?**
The new SA minister of mining is Joshua Mazibuko.

10 Where is False Bay?
- KwaZulu-Natal
- Western Cape
- Northern Cape

CRYPTIC CROSSWORD

NO 602 JD

Compiled by Jack Dunwoody (dunwoody_j@intekom.co.za)



ACROSS

1 Pay for an inside sports celebration (3,3,5)
9 A hop dance (3-4)
10 The more choice, the better (5)
11 Publication is to institute proceedings (5)
12 Engaging in Latin articulation (7)
13 Authoritarian may question report (6)
15 Shipping out of Spain is a nightmare (6)
18 Hardy girl on Time Square (7)
20 Reckon naked little boy is upset (3,2)
22 Two ways into a city (5)
23 Constituent's preferred alternative (7)
24 Boring alternative? Yes and no! (7,4)

DOWN

2 Employers in the US introducing Earnings Related Supplement (5)
3 Most contrived to have an involvement in paintings (7)
4 Proxy record in office (6)
5 Time for a shower? (5)
6 Drop right in line (7)
7 "I'm 90," Tom bursts out. "I'll be dead before it happens!" (3,2,2,4)
8 Promising to play the gallant, lively fellow (6,5)
14 Security police exploit an airman (7)
16 Old soldier to march again (7)
17 Warning to arm appears hollow (6)
19 Girl to use blue pencil, a hard one (5)
21 Number shot by gangster (5)

Solution to Crossword NO 601 JD

ACROSS: 1 Lethargic; 8 Emu; 9 Scintillate; 11 Andante; 12 Split; 13 Incubi; 15 Answer; 17 Intro; 18 Unarmed; 20 Odds and ends; 22 Run; 23 Does right
DOWN: 2 Etc; 3 Act on; 4 Galley; 5 Coarsen; 6 Needlewoman; 7 Quartered; 10 Indications; 11 As if I care; 14 Blooded; 16 Mutate; 19 Adder; 21 Doh

ON MARGIN

WHEN TO INVEST

Want to know when to buy shares? **MacroTourist** (Twitter handle: @Gloeschi) provides this handy checklist for clues from management:

SH*T MANAGEMENT SAYS

SOURCE: Many years of management meetings
(c) Lighthouse 2015

VERBATIM

Trevor Noah took over as the new host of *The Daily Show* on 28 September. Here are a few of his best jokes from his career:

On arriving in the UK:

You have one of the most stressful border controls I’ve ever come into in my life. They ask you so many questions. The guy looks at me as says: “So you’re a comedian? You don’t look funny.”

So at one point I stopped and I said: “Look, man, I’ve given you the paperwork, I’ve told you why I’m here, why don’t you believe me?”

He said: “Well, the truth is, we can’t just believe everybody that comes into the UK. We can’t just believe that you’re gonna do what you say you’re here to do, you might do something totally different.”

I thought: “Fair enough, that makes sense. I just wish, as Africans, we’d thought of that when the British arrived, that would have served us well.”

On watching sports on TV in America:

I’ve never seen more focus put on sports anywhere else in the world. You worship them, you analyse them, you watch the game before the game. You talk about what happened in the game and what could’ve happened in the game, what didn’t happen in the game. It’s all statistics, you know every statistic.

Then you switch over to the business channels and you’re like: “Well, what’s happening in the economy this year, Bob?” Bob: “Well, nobody knows.”

On racism:

You have to work a bit harder to offend me because I’m from the home of some of the best racism in the world. I’m a snob when it comes to racism.